SOPHARMA AD

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014

	Notes		2014 BGN'000	2013 BGN'000 *Restated*	
Revenue	4		201,456	216,054	
Other operating income/(losses), net	5		4,013	3,079	
Changes in inventories of finished goods and work in progress	3		10,296	(7,006)	*
Raw materials and consumables used	6		(60,600)	(54,932)	
Hired services expense	7		(71,347)	(59,659)	
Employee benefits expense	8		(34,403)	(32,328)	
Depreciation and amortisation expense	16,17		(15,866)	(11,716)	
Other operating expenses	9,10		(9,717)	(8,059)	
Profit from operations			**23,832**	**45,433**	
Impairment of non-current assets	11		(3,252)	(193)	
Finance income	12		12,997	9,987	
Finance costs	13		(4,672)	(17,338)	
Finance income/(costs), net			**8,325**	**(7,351)**	
Profit before income tax			**28,905**	**37,889**	
Income tax expense	3,14		(2,374)	(4,349)	*
Net profit for the year			**26,531**	**33,540**	*
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Loss on revaluation of property, plant and equipment	16,18		(6)	(353)	
Remeasurements of defined benefit pension plans	32		(299)	(80)	
Income tax relating to items of other comprehensive income that will not be reclassified	14		1	35	
			(304)	**(398)**	
Items that may be reclassified to profit or loss:					
Net change in fair value of available-for-sale financial assets			113	470	
			113	**470**	
Other comprehensive income for the year, net of tax	15		**(191)**	**72**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			**26,340**	**33,612**	
Earnings per share	29	BGN	**0.21**	**0.26**	*

The accompanying notes on pages 5 to 98 form an integral part of these financial statements.

Executive Director: *Ognian Donev, PhD*

Finance Director: *Boris Borisov*

Chief Accountant (preparer): *Yordanka Petkova*

BULGARIA SOPHARMA AD

AUDITED BY AFA
27/03/2015

* Restated

SEPARATE STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

	Notes	31 December 2014 BGN'000	31 December 2013 BGN'000 *Restated*
ASSETS			
Non-current assets			
Property, plant and equipment	16	192,728	198,158
Intangible assets	17	2,442	3,661
Investment property	18	22,368	22,555
Investments in subsidiaries	19	103,068	101,207
Investments in associates	20	7,015	-
Available-for-sale investments	21	4,439	6,862
Long-term receivables from related parties	22	33,150	25,649
Other long-term receivables	23	6	17
		365,216	**358,109**
Current assets			
Inventories	3,24	54,047	51,249 *
Receivables from related parties	25	99,505	103,350
Trade receivables	26	23,268	22,155
Other receivables and prepayments	27	11,024	7,241
Cash and cash equivalents	28	2,935	8,198
		190,779	**192,193**
TOTAL ASSETS		**555,995**	**550,302**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		132,000	132,000
Treasury shares		(17,203)	(18,105)
Reserves		246,243	220,935
Retained earnings	3	28,666	35,905 *
	29	**389,706**	**370,735**
LIABILITIES			
Non-current liabilities			
Long-term bank loans	30	37,972	48,723
Deferred tax liabilities	3,31	3,988	3,943 *
Retirement benefit obligations	32	2,219	1,855
Government grants	33	3,358	3,534
Finance lease liabilities	34	34	49
		47,571	**58,104**
Current liabilities			
Short-term bank loans	35	90,761	98,878
Current portion of long-term bank loans	30	7,391	3,822
Payables to related parties	36	7,929	7,836
Trade payables	37	6,553	4,973
Tax payables	38	902	1,243
Payables to personnel and for social security	39	4,213	3,736
Other current liabilities	40	969	975
		118,718	**121,463**
TOTAL LIABILITIES		**166,289**	**179,567**
TOTAL EQUITY AND LIABILITIES		**555,995**	**550,302**

The accompanying notes on pages 5 to 98 form an integral part of these financial statements.

The financial statements on pages 1 to 98 were approved for issue by the Board of Directors and signed on its behalf on 27 March 2015 by:

Executive Director: *Ognian Donev, PhD*

Finance Director: *Boris Borisov*

Chief Accountant (preparer): *Yordanka Petkova*

BULGARIA SOPHARMA AD

AUDITED BY AFA
27/03/2015

* Restated

SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Notes	2014 BGN'000	2013 BGN'000
Cash flows from operating activities			
Cash receipts from customers		217,314	265,501
Cash paid to suppliers		(143,724)	(140,584)
Cash paid to employees and for social security		(32,695)	(31,121)
Taxes paid (except income taxes)		(5,227)	(1,926)
Taxes refunded (except income taxes)		3,412	7,759
Income taxes paid		(4,842)	(3,550)
Income taxes refunded		-	1,300
Interest and bank charges paid on working capital loans		(3,011)	(4,726)
Foreign currency exchange gains/(losses), net		(145)	(442)
Other proceeds/(payments), net		(931)	(768)
Net cash flows from operating activities		**30,151**	**91,443**
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,996)	(19,139)
Proceeds from sales of property, plant and equipment		335	33
Purchases of intangible assets		(50)	(494)
Purchases of investment property		(1,005)	(2,477)
Purchases of shares in associates		(3,136)	-
Purchases of available-for-sale investments		(1,425)	(956)
Proceeds from sales of available-for-sale investments		133	1,611
Purchases of shares in subsidiaries		(5,988)	(10,300)
Proceeds from sales of shares in subsidiaries		5,046	3,225
Proceeds from liquidation shares in subsidiaries		-	109
Dividends received from investments in subsidiaries and available-for-sale investments		6,332	5,852
Loans granted to related parties		(19,480)	(15,892)
Loan repayments by related parties		12,555	21,872
Loans granted to other companies		(518)	(1,215)
Loan repayments by other companies		362	1,597
Interest received on granted loans and deposits		3,583	2,284
Net cash flows used in investing activities		**(11,252)**	**(13,890)**
Cash flows from financing activities			
Proceeds from long-term bank loans		-	4,165
Repayment of long-term bank loans		(7,186)	(9,297)
Proceeds from short-term bank loans (overdraft), net		5,327	-
Repayment of short-term bank loans (overdraft), net		(13,328)	(53,954)
Interest and charges paid under investment purpose loans		(1,661)	(2,308)
Proceeds from sale of treasury shares		2,784	-
Treasury shares		(1,263)	(5,949)
Dividends paid		(8,811)	(8,827)
Payments of finance lease liabilities		(95)	(94)
Government grants received		-	3,787
Net cash flows used in financing activities		**(24,233)**	**(72,477)**
Net (decrease)/increase in cash and cash equivalents		**(5,334)**	**5,076**
Cash and cash equivalents at 1 January		7,671	2,595
Cash and cash equivalents at 31 December	28	**2,337**	**7,671**

The accompanying notes on pages 5 to 98 form an integral part of these financial statements.

Executive Director: *Ognian Donev, PhD*

Finance Director: *Boris Borisov*

Chief Accountant (preparer): *Yordanka Petkova*

BULGARIA • SOPHARMA AD

AUDITED BY AFA
27/03/2015

SEPARATE STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	Notes	Share capital	Treasury shares	Statutory reserves	Revaluation reserve - property, plant and equipment	Available-for-sale financial assets reserve	Additional reserves	Retained earnings	Total equity
		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance at 1 January 2013 (originally stated)		**132,000**	**(12,156)**	**25,934**	**25,093**	**514**	**138,387**	**41,060**	**350,832**
Effects of changes in accounting policies	3	-	-	-	-	-	-	1,170	1,170
Balance at 1 January 2013 (restated)		**132,000**	**(12,156)**	**25,934**	**25,093**	**514**	**138,387**	**42,230**	**352,002**
Changes in equity for 2013									
Treasury shares purchased		-	(5,949)	-	-	-	-	-	(5,949)
Distribution of profit for:		-	-	4,117	-	-	28,121	(41,168)	(8,930)
** reserves*		-	-	*4,117*	-	-	*28,121*	*(32,238)*	-
** dividend*		-	-	-	-	-	-	*(8,930)*	*(8,930)*
Total comprehensive income for the year (originally stated)		-	-	-	**(318)**	**470**	-	**33,581**	**33,733**
Effects of changes in accounting policies	3	-	-	-	-	-	-	(121)	(121)
Total comprehensive income for the year (restated), including:		-	-	-	**(318)**	**470**	-	**33,460**	**33,612**
** net profit for the year*		-	-	-	-	-	-	*33,540*	*33,540*
** other comprehensive income, net of taxes*		-	-	-	*(318)*	*470*	-	*(80)*	*72*
Transfer to retained earnings		-	-	-	(1,383)	-	-	1,383	-
Balance at 31 December 2013 (originally stated)		**132,000**	**(18,105)**	**30,051**	**23,392**	**984**	**166,508**	**34,856**	**369,686**
Effects of changes in accounting policies	3	-	-	-	-	-	-	1,049	1,049
Balance at 31 December 2013 (restated)	29	**132,000**	**(18,105)**	**30,051**	**23,392**	**984**	**166,508**	**35,905**	**370,735**
Changes in equity for 2014									
Effect of acquisition of treasury shares		-	902	-	-	-	-	619	1,521
Distribution of profit for:		-	-	3,504	-	-	22,649	(35,043)	(8,890)
** reserves*		-	-	*3,504*	-	-	*22,649*	*(26,153)*	-
** dividend*		-	-	-	-	-	-	*(8,890)*	*(8,890)*
Total comprehensive income for the year, including:		-	-	-	**(5)**	**113**	-	**26,232**	**26,340**
** net profit for the year*		-	-	-	-	-	-	*26,531*	*26,531*
** other comprehensive income, net of taxes*		-	-	-	*(5)*	*113*	-	*(299)*	*(191)*
Transfer to retained earnings		-	-	-	(953)	-	-	953	-
Balance at 31 December 2014	29	**132,000**	**(17,203)**	**33,555**	**22,434**	**1,097**	**189,157**	**28,666**	**389,706**

The accompanying notes on pages 5 to 98 form an integral part of these financial statements.

Executive Director: Ognian Donev, PhD

Finance Director: Boris Borisov

Chief Accountant (preparer): Yordanka Petkova

AUDITED BY AFA
27/03/2015

This is a translation from Bulgarian of the separate financial statements of Sopharma AD for year 2014.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. BACKGROUND CORPORATE INFORMATION

Sopharma AD is a business company registered in Bulgaria with a seat and registered address at 16, Iliensko Shousse Str., Sofia.

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

1.1. Ownership and management

Sopharma AD is a public company under the Public Offering of Securities Act.

The structure of Company's joint-stock capital as at 31 December 2014 was as follows:

	%
Donev Investment Holding AD	25.27
Telecomplect Invest AD	20.42
Rompharm Company OOD	18.42
Sopharma AD (treasury shares)	3.87
Other legal persons	28.93
Physical persons	3.09

Sopharma AD has a one-tier management system with a five-member Board of Directors as follows:

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

The Company is represented and managed by its Executive Director Ognian Donev, PhD.

The total number of Company's personnel was 1,825 workers and employees as at 31 December 2014 (31 December 2013: 1,793).

1.2. Principal activities

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

- production and trade in medicinal substances and finished drug forms;
- research and development activities in the field of medicinal products.

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Company's activities throughout the period 2012 – 2014, are presented in the table below:

Indicator	**2012**	**2013**	**2014**
GDP in million levs *	80,044	80,282	82,029
Actual growth of GDP **	0.5	1.1	1.9
Year-end inflation *	2.8	-0.9	-2.0
Average exchange rate of USD for the year	1.52	1.47	1.47
Exchange rate of the USD at year-end	1.48	1.42	1.61
Basic interest rate at year-end	0.03	0.02	0.02
Unemployment rate at year-end *	11.4	11.8	10.7

** preliminary data for 2014;*
*** preliminary data as at 30 September 2014*
Source: BNB, NSI

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the separate financial statements

The separate financial statements of Sopharma AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2014 and have been accepted by the Commission of the European Union.

The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2014, has not caused changes in Company's 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.

These standards and interpretations include:

- *IFRS 10 "Consolidated Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC as of 1 January 2014) – regarding the first-time application of this standard.* This standard replaces a significant part of the old IAS 27 ("Consolidated and Separate Financial Statements") and SIC-12 ("Consolidation - Special Purpose Entities"). Its main objective is to establish improved principles and methods for the preparation and presentation of financial statements when an entity controls one or more other entities. It gives a new definition for the term 'control' as comprising three elements, establishes control as the only basis for consolidation and provides more detailed rules and guidance for identifying existing relationships of control. The standard also sets out the main mandatory rules for the technology to prepare consolidated financial statements;

- *IFRS 11 "Joint Arrangements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014); Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC as of 1 January 2014) – regarding the first-time application of this standard.* This standard replaces IAS 31 "Interests in Joint Ventures", including SIC-13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". It introduces only two types of joint arrangements – joint operations and joint ventures – whereas the classification criterion used is not the legal form but rather the rights and obligations of each party to an arrangement, i.e. whether they represent rights to the assets and liabilities and respectively, to the expenses and revenue from the joint arrangement (joint operation) or rights to the net assets of the joint arrangement (joint venture). The standard removes the option for proportionate consolidation and requires application of the equity method for consolidation of jointly controlled entities;
- *IFRS 12 "Disclosing of Interests in Other Entities" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC as of 1 January 2014) – regarding the first-time application of this standard.* This standard introduces a new frame of requirements to the scope of the disclosures in the consolidated financial statements regarding the interest of the reporting entity in other companies and entities, which are subsidiaries, associates, joint ventures or unconsolidated structured entities, including to the content of the information in order to ensure an option for a reasonable evaluation of the effects and the risks of those interests;
- *IAS 27 (as revised in 2011) "Separate Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014).* The standard was reissued with a changed title as the part of it outlining the composition of, criteria about and technology for preparation of consolidated financial statements was entirely separated in a new standard – IFRS 10 "Consolidated Financial Statements". Thus, remaining in the standard are basically the accounting and measurement rules regarding investments in subsidiaries, associates and *joint ventures* at the level of separate financial statements of investors in their capacity as parent companies, investors with significant influence and venturers in joint ventures as well as the disclosures specific for this type of financial statements;
- *IAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014).* The standard has a changed title and scope and outlines the application of the equity method in consolidated financial

statements both for investments in associates and in *joint* ventures, which were previously included in the scope of IAS 31 "Interests in Joint Ventures", and starting from 1 January 2013 – in line with the new IFRS 11;

- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding the offsetting of financial assets and financial liabilities.* These amendments relate to a clarification as to the application of the rules on offsetting financial instruments. They are mainly in four directions: (a) clarification of the meaning of 'current legally enforceable right of set-off'; (b) the application of the simultaneous realisation and settlement criterion; (c) offsetting of cash provided as collateral; (d) the unit to account for the application of the offsetting requirements;
- *IAS 36 (amended) "Impairment of Assets" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding recoverable amount disclosures for non-financial assets.* This amendment relates to the necessity to decrease particular disclosures regarding recoverable amount under IAS 36 in connection with the requirements of IFRS 13 when applying methods for calculating the recoverable amount of non-financial assets at fair value less costs of disposal;
- *IFRIC 21 "Levies" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding levies imposed by a government.* This interpretation provides guidance about the criteria for recognising a liability to pay a levy (charge, tax or other similar amount) imposed by the government in accordance with laws and regulations that are outside the scope of IAS 12.

With regard to the standard, stated below, the management has assessed its possible effect and has concluded that it would not have an impact on the accounting policies and respectively, on Company's assets, liabilities, transactions and performance due to the fact that the Company does not possess/operate such items and/or does not perform such deals and transactions:

- *IAS 39 (amended) "Financial Instruments: Recognition and Measurement" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding novation of derivatives and continuation of hedge accounting.* This amendment has been introduced in response to legislative changes across certain jurisdictions whereby entities that use over-the-counter derivatives are required to novate them to a central counterparty (a clearing organisation/agency) in order that continuing designation to hedge accounting is allowed.

At the date when these financial statements have been approved for issue, 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 2014, which have not been adopted by the Company for early application. The management has judged that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements for subsequent periods, namely:

- *IFRS 9 "Financial Instruments" (in force for annual periods beginning on or after 1 January 2018 – not 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 entity'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 becomes effective. Phase 3: Impairment methodology – the amendment introduces the 'expected loss' impairment model whereunder all expected credit losses shall be recognised over the lifetime of an amortisable financial instrument and not only if a trigger event has occurred as per the current model under IAS 39. With the amendments to IFRS 9 of July 2014 the standard is deemed to be final and the date of its coming into force has been set to 1 January 2018;
- *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 Company and whether it chooses the option to restate prior periods;

- *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 – not endorsed by EC).* 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 11 (amended) "Joint Arrangements" – regarding acquisitions of interests in joint operations (in force for annual periods beginning on or after 1 January 2016 – not 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 15 "Revenue from Contracts with Customers" (in force for annual periods beginning on or after 1 January 2017 – not 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 counterparts. The standard will supersede the effective to date 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 selling 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 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;

- *IAS 1 (amended) "Presentation of Financial Statements" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2016 – not 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 – not 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 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 – not 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;
- *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).* 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 conditions' 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 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 – 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 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 does not change the initial plan of disposal and 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).

In addition, with regard to the stated below new standards, amended/revised standards and new interpretations, issued but not yet in force for annual periods beginning on 1 January 2014, the management has judged 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 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 investment entities (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This amendment addresses issues that have arisen in relation to the exemption from consolidation for investment entities, namely: (1) whether an investment entity should account for a subsidiary at fair value if the subsidiary provides investment services to third parties; (2) the interaction between amendments for investment entities and the exemption from consolidation under IFRS 10; (3) whether a non-investment entity should unwind the fair value accounting of its joint ventures or associates that are investment entities;
- *IFRS 14 "Regulatory Deferral Accounts" (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* 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. The basic rules of the standard set out that the entities: (a) may recognise and continue the presentation in their IFRS financial statements regulatory deferral account balances (assets or liabilities) but only if these balances have already been recognised under the previously applied accounting standards and adopted accounting policies; (b) the regulatory deferral accounts should be presented separately in the statement of financial position while their movements should be presented as separate line items in the statement of comprehensive income; and (c) specific disclosures are required in relation with the nature, risks and effects of rate-regulated activities and the recognised deferral account balances;

- *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 – not 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).* 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 change sets out that these contributions shall be treated as either a reduction in service costs or an effect in the remeasurements of the net liability (asset) of the plan depending on whether the contributions are related to the service or not;
- *Annual Improvements to IFRSs 2011-2013 Cycle (December 2013) – improvements to IFRS 1, IFRS 3, IFRS 13, IAS 40 (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC as of the same date).* 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) clarification that a first-time adopter of IFRS may apply standards that are not yet effective provided that the standards themselves permit early application (IFRS 1); (b) clarification that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself (IFRS 3); (c) clarification regarding the scope of contracts that fall within the scope of the exception for a group of financial assets and financial liabilities with offsetting positions in market and credit risk (IFRS 13); (d) clarification that in the treatment of a transaction, which simultaneously meets the criteria of IFRS 3 and refers to investment properties under IAS 40, requires the separate application of both standards independently of each other (IAS 40).

The separate financial statements of the Company have been prepared on a historical cost basis except for property, plant and equipment, investment property and available-for-sale financial instruments, which are measured at revalued amount and respectively, at fair value.

The Company keeps its accounting books in Bulgarian Levs (BGN), which is accepted as being its presentation currency. The data in the separate financial statements and the notes thereto is presented in thousand Bulgarian Levs (BGN'000) except where it is explicitly stated otherwise.

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in *Note 2.29, Note 16, Note 18 and Note 21.*

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated annual financial statements for year 2014 in accordance with IFRS that are in force for year 2014 whereas these separate annual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated annual financial statements will be approved for issue by the Board of Directors of the Company not later than 30 April 2015 and after this date the financial statements will be publicly made available to third parties.

2.3. Comparatives

In these financial statements the Company 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.

Retrospective restatements and reclassifications of the comparative information for 2013 were made in 2014 with regard to the following items: inventories, deferred tax liabilities, changes in inventories of finished goods and work in progress, income tax expense and accumulated profits and losses *(Note 3).* The reason for these restatements and reclassifications is the adoption of a new approach for calculating the cost of work in progress. The effects of changing the valuation method for work in progress have been stated as a change in the accounting policy by applying the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" for retrospective restatement and presentation.

The management has assessed the materiality of these changes for the overall presentation of information and has concluded that it is not necessary to prepare and present a third statement of financial position.

2.4. Functional currency and recognition of exchange differences

The functional and reporting (presentation) currency of the Company is the Bulgarian Lev. Starting from 1 July 1997 the Bulgarian Lev was fixed under the Bulgarian National Bank Act to the German Mark at the ratio of BGN 1 : DEM 1, and with the introduction of the Euro as the official currency of the European Union, it has been fixed to the Euro at a ratio of BGN 1.95583 : EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash and cash equivalents, receivables and payables, as monetary reporting items, denominated in a foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

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

Foreign exchange gains or losses arising on the settlement or recording of foreign currency transactions at rates different from those at which they were converted on initial recognition, are recognised in the statement of comprehensive income (within profit or loss for the year) in the period in which they arise and are treated as ‘other operating income/(losses)’ (within profit or loss for the year) and presented net.

2.5. Revenue

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

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

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the date of the statement of financial position, if this stage as well as the transaction and completion costs, can be measured reliably.

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

Net foreign exchange differences related to cash, trade receivables and payables, denominated in a foreign currency, are recognised in the statement of comprehensive income (within profit or loss for the year) when they arise and are presented net under ‘other operating income/(losses)’.

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

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

Finance income is presented separately on the face of the statement of comprehensive income (within profit or loss for the year) and is comprised of interest income on granted loans and term deposits, gains from investment transactions in available-for-sale securities and/or investments in subsidiaries and associates, including dividends, foreign exchange net gains from revaluation of loans to foreign currency.

2.6. Expenses

Expenses are recognised as they are incurred, following the accrual and matching concepts, to the extent that this would not cause recognition of assets and liabilities that do not satisfy the relevant definitions under IFRS.

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

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

Finance costs are presented separately in the statement of comprehensive income (within profit or loss for the year) and are comprised of interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses on investments in available-for-sale securities and/or investments in subsidiaries and associates.

2.7. Property, plant and equipment

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

Initial acquisition

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

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

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

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

The useful life, set for any tangible fixed asset, is reviewed at the end of each reporting period and in case of any material deviation from the future expectations on the period of use, the latter is adjusted prospectively.

Impairment of assets

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

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' 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’ in the statement of comprehensive income (within profit or loss for the year). The part of ‘revaluation reserve’ component attributable to the sold asset is directly transferred to ‘retained earnings’ component in the statement of changes in equity.

2.8. Biological assets

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

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

2.9. Intangible assets

Intangible assets are stated in the financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value.

The Company applies the straight-line amortisation method for the intangible assets with determined useful life of 5 – 10 years.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then impairment is recognised as an expense in the statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated under 'other operating income/(losses), net' on the face of the statement of comprehensive income (within profit or loss for the year).

2.10. Investment property

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the statement of financial position at fair value *(Note 2.28)*. Gains or losses arising from a change in the fair value of investment property are recognised in the statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item.

Investment property is derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of investment property are determined as the difference between the disposal proceeds and the carrying amount of the asset at the date of sale. They are presented under 'other operating income/(losses), net' in the statement of comprehensive income (within profit or loss for the year).

Transfers to, or from, the group of 'investment property' is made only when there is a change in the function and purpose of a particular property. In case of a transfer from 'investment property' to 'owner-occupied property', the asset is recognised in the new group at deemed cost, which is its fair value at the date of transfer. To the opposite, in case of a transfer from 'owner-occupied property' to 'investment property' the asset is measured at fair value at the date of transfer while the difference to its carrying amount is presented as a component of the statement of comprehensive income (within other comprehensive income) and within 'revaluation reserve – property, plant and equipment' in the statement of changes in equity.

2.11. Investments in subsidiaries and associates

Long-term investments representing shares in subsidiary and associate companies are presented in the financial statements at acquisition cost (cost) being the fair value of the consideration paid for the investment including any directly attributable costs incurred on the acquisition less accumulated impairment.

Company's investments in subsidiaries and associates are subject to review for impairment. Where conditions for impairment are identified, the impairment is recognised in the statement of comprehensive income (within profit or loss for the year).

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

Investments are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the control over the economic benefits from the respective specific type of investments are being lost. The gains or losses on the sale are presented respectively as ‘finance income’ or ‘finance costs’ in the statement of comprehensive income (within profit or loss for the year).

2.12. Available-for-sale investments

The investments in the form of available-for-sale financial assets are non-derivative financial assets representing shares in the capital of other companies (minority interest), held with long-term prospects.

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 2.23)*.

Subsequent measurement

The available-for-sale investments (financial assets), held by the Company, are subsequently measured at fair value *(Note 2.28)* with the assistance of an independent certified appraiser.

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

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

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

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

The available-for-sale investments (financial assets) are reviewed at the end of each reporting period and if conditions for permanent impairment are identified, the latter is recognised in the statement of comprehensive income (within profit or loss for the year) under ‘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 statement of comprehensive income (within profit or loss for the year) unless a positive reserve for this investment was formed in prior periods – then the impairment is at first covered at the account of this reserve and is presented net in the statement of comprehensive income (within other comprehensive income).

2.13. Inventories

Inventories are valued in the financial statements as follows:

- raw materials, materials and goods – at the lower of purchase cost (acquisition cost) and net realisable value;
- finished products, semi-finished products and work in progress – at the lower of production cost and net realisable value.

Expenses incurred in bringing a certain product within inventories to its present condition and location, are included in the acquisition cost (cost) as follows:

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage/sale;
- finished products, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs. Fixed production overheads are included in the production cost of manufactured finished products, semi-finished products and work in progress based on the normal operating capacity determined on the grounds of commonly maintained average volume of production confirmed by the production plan. The base, chosen for their allocation at unit-of-production level, is the standard rate of man-hours of directly engaged staff in the production of the particular unit.

Starting from the beginning of 2014, the Company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard purchase costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs. Where necessary, the value of inventories, included in the financial statements, is adjusted.

On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the financial statements (Note 2.29).

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

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

2.14. Trade and other receivables

Trade receivables are recognised and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method *(Note 2.23).*

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

2.15. Interest-bearing loans and other financial resources granted

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

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Company has unconditionally the right to collect its receivable within a term of more than 12 months after the end of the reporting period *(Note 2.23).*

2.16. Cash and cash equivalents

Cash and cash equivalents include cash in hand, current accounts and short-term deposits with banks, with original maturity of less than three months *(Note 2.23)*.

For the purposes of the 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 received investment purpose loans is reported as payments for financial activities while the interest on loans related to working capital for current activities is included in the operating activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Company and is recovered therewith in the respective period (month).
- blocked funds for a period of more than 3 months are not treated as cash and cash equivalents.

2.17. Trade and other payables

Trade and other current amounts payable are carried at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method *(Note 2.23)*.

2.18. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of the direct costs related to these loans and borrowings. After the initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost by applying the effective interest method. Amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement, associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as finance costs (interest) or income throughout the amortisation period, or when the liabilities are derecognised or reduced *(Note 2.23)*.

Interest-bearing loans and other borrowings are classified as current ones unless (and for the relevant portion thereof) the Company has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period.

2.19. Capitalisation of borrowing costs

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

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

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

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

2.20. Leases

Finance lease

Lessee

Finance leases, which transfer to the Company a substantial part of all risks and rewards incidental to ownership of the leased asset, are recognised in the statement of financial position of the lessee and are presented as a leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate.

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

Lessor

Finance lease where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Company, is written-off from the goods of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned finance income. The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the statement of comprehensive income (within profit or loss for the year) in the inception of the lease term (when the asset is delivered) as sales income.

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

Operating lease

Lessee

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

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

Lessor

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

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

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

The employment and social security relations with the workers and employees of the Company are based on the provisions of the Labour Code and the effective social security legislation in Bulgaria.

Short-term benefits

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

At the end of each reporting period, the Company measures the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated amounts of employee’s remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Tantieme and bonus schemes

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

Long-term retirement benefits

Defined contribution plans

The major duty of the Company as an employer in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, the Guaranteed Receivables of Workers and Employees (GRWE) Fund and for health insurance. The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

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

There is no established and functioning private voluntary social security fund at the Company.

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

Defined benefit plans

In accordance with the Labour Code, the Company in its capacity as an employer in Bulgaria is obliged to pay an indemnity to its personnel when coming of age for retirement, at an amount which, depending on the length of service with the entity, varies between two and six gross monthly salaries at the employment termination date. In their nature these are unfunded defined benefit schemes.

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

At the end of each reporting period, the Company assigns certified actuaries who issue a report with their calculations about the long-term retirement benefit obligations to personnel. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in Bulgaria where the Company itself operates.

Termination benefits

In accordance with the local provisions of the employment and social security regulations in Bulgaria, the Company as an employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

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

2.22. Share capital and reserves

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

According to the requirements of the Commercial Act and the Articles of Association, the Company is obliged to set aside a ***Reserve Fund*** by using the following resources:

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

Treasury shares are presented in the statement of financial position at cost (acquisition price) and their gross amount is deducted from Company's equity. Gains or losses on sales of treasury shares are at the account of and carried directly to Company's equity in the 'retained earnings' component.

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

- gain from the difference between the carrying amount of property, plant and equipment and their fair value at the date of each revaluation; and
- gain from the difference between the carrying amount of property, stated within the group 'owner occupied property', and their fair value at the date on which they are transferred to the group 'investment property'.

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

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

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

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

2.23. Financial instruments

2.23.1. Financial assets

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

The Company usually recognises its financial assets in the statement of financial position on the trade date, being the date on which the Company commits to purchase the respective financial assets. All financial assets are measured at their fair value plus the directly attributable transaction costs.

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

Loans and receivables

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

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the statement of financial position *(Notes 2.14, 2.15 and 2.16)*. Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the end of each reporting period, the Company assesses whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired *(Note 2.29)*.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. These are usually shares or interest in other companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where the Company intends to sell them in the following 12 months and is actively searching for a buyer *(Note 2.12)*.

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 2.12)*.

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

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

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

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

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

2.23.2. Financial liabilities and equity instruments

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

Financial liabilities

Financial liabilities include loans and payables to suppliers and other counterparts. They are initially recognised in the statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method *(Note 2.17, Note 2.18 and Note 2.20)*.

2.24. Income taxes

Company's *current income taxes* are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate in Bulgaria for year 2014 was 10 % (2013: 10%).

Deferred income taxes are determined using the liability method on all of Company's temporary differences between the carrying amounts of the assets and liabilities and their tax bases, existing at the date of the financial statements.

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 utilized, with the exception of the differences arising from the initial recognition of an asset or liability, which has affected neither the accounting nor taxable profit or loss as at the date of the transaction.

The carrying amount of all deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, to allow the deferred tax asset to be deducted or compensated.

Deferred taxes, related to items that are accounted for as other components of comprehensive income or an equity item in the statement of financial position, are also reported directly in the respective component of the comprehensive income or the equity item in the statement of financial position.

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

The deferred tax assets of the Company are presented net against its deferred tax liabilities when and as much as it is the tax payer for them in the respective jurisdiction (Bulgaria), and this is only in cases where the Company is legally entitled to perform or receive net payments of current tax liabilities or income tax receivables.

The deferred income tax liabilities of the Company as at 31 December 2014 were assessed at a rate, valid also for 2015, at the amount of 10% (31 December 2013: 10%).

2.25. Government grants

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

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

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

2.26. Earnings per share

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

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

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

Diluted earnings per share are not calculated because no dilutive potential ordinary shares have been issued.

2.27. Segment reporting

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

Company's operating segments are currently monitored and directed separately as each of them represents a separate business area that offers various products and bears various business risks and rewards. Company's operating segments include the business fields by individual lines of medicinal forms production – tablets, ampoules, other.

Information by operating segments

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

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

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

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

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

2.28. Fair value measurement

Some of Company's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are *(a)* <u>on a recurring basis</u> – *available-for-sale financial assets, investment property, granted and received bank loans and loans from third parties, certain trade and other receivables and payables, finance lease receivables and payables; and other (b)* <u>on a non-recurring 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 market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset or liability. Both the designated as a principal market and the most advantageous market are markets to which the Company must have an access.

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

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

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

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

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

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

For assets and liabilities that are recognised at fair value in the financial statements on a recurring basis, the Company determines at the end of each reporting period whether transfers between levels in the fair value hierarchy are deemed to be made for a particular asset or liability depending on the inputs available and used at that date.

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

The Company uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: available-for-sale financial assets, investment properties, property, plant and equipment. The choice of such appraisers is made on an annual basis using the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of external appraisers is periodically assessed – every three to five years. The applied valuation approaches and techniques as well as the used inputs for each case of fair value measurement are subject to mandatory discussion and coordination between the external experts – appraisers and the specifically designated individual, engaged with measurements, and so is the acceptance of the issued appraiser's reports – especially with regard to the significant assumptions and the final conclusions and proposals for the fair value amount. The final fair value measurements are subject to approval by Company's Finance Director, Executive Director and the Board of Directors.

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

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

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

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

Inventories

Normal capacity

Company's normal production capacity is determined on the basis of management assessments (made after relevant analyses) for optimum load of the production facilities and return on the investments made therein, with structure of the manufactured finished products accepted as being common for the Company. In 2014, the actual achieved volume of production exceeded the volume set as normal production capacity (2013: the same).

Allowance for impairment

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

As a result of the reviews and analyses made in 2014, impairment of inventories was stated at the amount of BGN 3,003 thousand (2013: BGN 1,136 thousand) *(Notes 6 and 9).*

Actuarial calculations

Calculations of certified actuaries have been used when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor *(Note 32).*

Operating lease

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

Impairment of receivables

The Company estimates the losses from doubtful and bad debts at the end of each reporting period on an individual basis. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion therefrom while the remaining portion to the nominal value of the respective receivable is recognised in the statement of comprehensive income (within profit or loss for the year) as impairment loss *(Note 9).*

After 180 days of delay it is already considered that indicators for impairment may exist. In the judgment of collectability of receivables, the management performs analysis of the total exposure of each counterpart in order to establish the actual chance for their collection and not only at the level of past due individual receivables of a counterpart, including the potential opportunities for collecting eventual interest for compensating delay. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge, mortgage, warrant, bank guarantee) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has judged that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are fully written off.

The recognised impairment losses for 2014 (net of the reversed ones) amount to BGN 2,688 thousand (2013: BGN 1,653 thousand) *(Note 10)*.

Deferred tax assets

The Company has not recognised deferred taxes at the amount of BGN 1,510 thousand (31 December 2013: BGN 1,222 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference, on which no tax asset is recognised, amounts to BGN 15,098 thousand (31 December 2013: BGN 12,218 thousand).

The Company has not recognised deferred taxes at the amount of BGN 1,423 thousand (31 December 2013: BGN 1,414 thousand) related with impairment of available-for-sale investments as the shares of these companies were traded in a regulated market. The temporary difference, on which no tax asset is recognised, amounts to BGN 14,226 thousand (31 December 2013: BGN 14,138 thousand).

Litigation provisions

With regard to the pending litigations against the Company, the management together with Company's lawyers has judged that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 31 December 2014 *(Note 41)*.

3. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policy on the scope of expenses for the calculation of the cost of work in progress *(Note 2.3)* are as follows:

(a) in the statement of financial position as at 1 January 2013:

	originally stated	***change in the accounting policies***	***restated***
	01.01.2013		***01.01.2013***
	BGN'000	***BGN'000***	***BGN'000***
Retained earnings	41,060	1,170	42,230
Inventories	54,482	1,300	55,782
Deferred tax liabilities	3,815	130	3,945

(b) in the statement of financial position as at 31 December 2013:

	originally stated	***change in the accounting policies***	***restated***
	31.12.2013		***31.12.2013***
	BGN'000	***BGN'000***	***BGN'000***
Retained earnings	34,856	1,049	35,905
Inventories	50,083	1,166	51,249
Deferred tax liabilities	3,826	117	3,943

(c) in the statement of comprehensive income for 2013:

	originally stated	***change in the accounting policies***	***restated***
	2013		***2013***
	BGN'000	***BGN'000***	***BGN'000***
Changes in inventories of finished goods and work in progress	(6,872)	(134)	(7,006)
Income tax expense	(4,362)	13	(4,349)
Net profit for the year	33,661	(121)	33,540

The analysis of the effects from the transition to applying 'standard cost' as current measurement of a significant part of inventories in 2014 shows that data comparability is retained against 2013 while those for 2014 are presented at an amount, which approximates, in the context of materiality, the actual cost.

4. REVENUE

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

	2014	*2013*
	BGN '000	*BGN '000*
Export	137,955	153,066
Domestic market	63,501	62,988
Total	**201,456**	**216,054**

Sales by product - export	*2014*	*2013*
	BGN '000	*BGN '000*
Tablet dosage forms	102,093	116,128
Ampoule dosage forms	17,195	16,606
Syrup dosage forms	7,741	11,514
Ointments	7,111	5,968
Lyophilic products	3,050	2,165
Suppositories	550	437
Drops	215	248
Total	**137,955**	**153,066**

Sales by product – domestic market	*2014*	*2013*
	BGN '000	*BGN '000*
Tablet dosage forms	34,607	31,680
Ampoule dosage forms	17,210	18,079
Lyophilic products	3,650	4,206
Inhalation products	3,155	3,454
Ointments	1,918	1,591
Syrup dosage forms	1,941	1,629
Drops	610	649
Suppositories	385	390
Other	25	1,310
Total	**63,501**	**62,988**

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

	2014 BGN '000	***Relative share***	***2013 BGN '000***	***Relative share***
Europe	119,464	59%	130,332	60%
Bulgaria	63,501	32%	62,988	29%
Other countries	18,491	9%	22,734	11%
Total	**201,456**	**100%**	**216,054**	**100%**

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

	2014 BGN '000	***% of revenue***	***2013 BGN '000***	***% of revenue***
Client 1	67,181	33%	63,237	29%
Client 2	63,497	32%	61,491	28%
Client 3	24,409	12%	44,966	21%

5. OTHER OPERATING INCOME AND LOSSES

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

	2014 BGN '000	***2013 BGN '000***
Services rendered	3,576	2,814
Sales of goods	*1,598*	*1,545*
Cost of goods sold	*(993)*	*(871)*
Gain on sales of goods	605	674
Grants under European projects	177	75
Sales of materials	*18,388*	*16,801*
Cost of materials sold	*(18,220)*	*(16,629)*
Gain on sales of materials	168	172
Fines and penalties income	109	-
Net loss from exchange differences under trade receivables and payables and current accounts	(305)	(538)
Sales of non-current assets	*258*	*254*
Carrying amount of non-current assets sold	*(504)*	*(303)*
Loss on sales of non-current assets	(246)	(49)
Losses on revaluation on investment property to fair value	(187)	(200)
Other income	116	131
Total	**4,013**	**3,079**

The *sales of materials* comprise mainly: sales of substances and packaging materials – aluminium foil, vials, tubes etc.

Services rendered include:

	2014	***2013***
	BGN '000	***BGN '000***
Rentals	1,670	1,726
Manufacturing services	675	177
Social activities	604	416
Gamma irradiation	163	119
Laboratory analyses	120	110
Regulatory services	114	110
Transport organisation	122	46
Other	108	110
Total	**3,576**	**2,814**

Sales of goods include:

	2014	***2013***
	BGN '000	***BGN '000***
Foodstuffs	852	815
Goods with technical designation	444	483
Food supplements	210	139
Cosmetics	92	108
Total	**1,598**	**1,545**

The *cost of goods sold* is as follows:

	2014	***2013***
	BGN '000	***BGN '000***
Foodstuffs	800	675
Cosmetics	82	96
Food supplements	80	67
Goods with technical designation	31	33
Total	**993**	**871**

6. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2014	*2013*
	BGN '000	*BGN '000*
Basic materials	44,417	40,118
Spare parts, laboratory and technical materials	5,709	5,290
Electric energy	3,615	3,496
Heat power	3,395	3,235
Fuels and lubricating materials	1,007	1,254
Impairment of materials *(Note 10)*	737	203
Working clothes	692	593
Water	665	733
Scrap of materials	363	10
Total	**60,600**	**54,932**

Expenses on basic materials include:

	2014	*2013*
	BGN '000	*BGN '000*
Substances	23,347	22,581
Packaging materials	9,102	6,599
Liquid and solid chemicals	5,405	3,071
Aluminium and PVC foil, vials, tubes	3,054	4,737
Ampoules	2,816	2,360
Herbs	693	770
Total	**44,417**	**40,118**

7. HIRED SERVICES EXPENSE

Hired services expense includes:

	2014	*2013*
	BGN '000	*BGN '000*
Manufacturing of medicinal products	27,571	25,337
Consulting services	12,140	9,522
Advertising	9,275	7,559
Transport	3,100	2,264
Buildings and equipment maintenance	2,800	1,433
Rentals	2,411	2,454
Logistic services – domestic market	1,892	1,528
Logistic services – export	1,366	379
Services on medicinal products registration	1,281	747
Local taxes and charges	1,106	667
Security	867	904
Services under civil contracts	806	775
State and regulatory charges	774	809
Subscription fees	749	721
Medical service	744	659
Insurance	617	475
Taxes on expenses	548	534
Announcements and communications	443	351
Vehicles repair and maintenance	436	313
Clinical trials	300	105
Documentation translation	252	303
Commission fees	229	169
Licence fees and charges	207	149
Destruction of pharmaceuticals	192	356
Fees for servicing of current bank accounts	183	281
Courier services	114	140
Other	944	725
Total	**71,347**	**59,659**

8. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2014	*2013*
	BGN '000	*BGN '000*
Current wages and salaries	25,931	23,925
Social security/health insurance contributions	4,858	4,267
Social benefits and payments	1,952	2,179
Tantieme	801	1,105
Accruals for unused paid leaves	500	514
Accruals for long-term retirement benefit obligations *(Note 32)*	275	256
Social security/health insurance contributions on leaves	86	82
Total	**34,403**	**32,328**

9. OTHER OPERATING EXPENSES

Other expenses include:

	2014	*2013*
	BGN '000	*BGN '000*
Accrued impairment of receivables, net *(Note 10)*	2,651	1,646
Entertainment allowances	2,363	2,560
Impairment of finished products and work in progress *(Note 10)*	2,266	933
Business trip costs	804	696
Scrapped and missing non-current assets	378	128
Donations	191	311
Scrapped finished products and work in progress	183	437
Receivables written-off	158	155
Training	136	106
Unrecognised input tax under VATA	115	38
Other taxes and payments to the state budget	51	776
Impairment charge on trade loans granted, net *(Note 10)*	37	7
Other	384	266
Total	**9,717**	**8,059**

10. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on current assets include:

	2014	*2013*
	BGN '000	*BGN '000*
Impairment of receivables	*2,947*	*2,309*
Reversed impairment of receivables	*(296)*	*(663)*
Net change in the impairment of receivables	2,651	1,646
Impairment of finished products	2,238	835
Impairment of materials *(Note 6)*	737	203
Impairment of receivables under trade loans granted	37	7
Impairment of work in progress	28	98
Total	**5,691**	**2,789**

11. IMPAIRMENT OF NON-CURRENT ASSETS

Impairment losses on non-current assets include:

	2014	*2013*
	BGN '000	*BGN '000*
Impairment of investments in subsidiaries	2,880	-
Impairment of property, plant and equipment	372	193
	3,252	**193**

12. FINANCE INCOME

Finance income includes:

	2014	*2013*
	BGN'000	*BGN'000*
Income from equity investments	6,361	5,889
Net gain on transactions with investments in securities	3,509	-
Interest income on loans granted	3,127	3,989
Income from liquidation shares in subsidiaries	-	109
Total	**12,997**	**9,987**

13. FINANCE COSTS

Finance costs include:

	2014	*2013*
	BGN'000	*BGN'000*
Interest expense on loans received	4,326	5,676
Bank fees and charges on loans and guarantees	240	289
Impairment of available-for-sale investments	88	6,746
Interest expense on finance lease	18	49
Net loss on transactions with investments in securities	-	4,510
Net loss from exchange differences on loans	-	68
Total	**4,672**	**17,338**

14. INCOME TAX EXPENSE

Statement of comprehensive income (profit or loss for the year)	*2014*	*2013*
	BGN '000	*BGN '000*
Taxable profit for the year under tax return	23,289	42,632*
Revaluation reserve included as an increase in the annual tax return	(249)	(263)
Taxable profit for the year	23,040	42,369
Current income tax expense for the year – 10% (2013: 10%)	2,304	4,237
Prior periods tax expense	-	39
Deferred income taxes related to:		
Occurrence and reversal of temporary differences	70	73
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**2,374**	**4,349***

Reconciliation of income tax expense applicable to the accounting profit or loss		
Accounting profit for the year	*28,905*	*37,889**
Income tax – 10% (2013: 10%	2,891	3,789
From unrecognised amounts as per tax returns related to:		
increases – BGN 3,841 thousand (2013: BGN 16,487 thousand)	384	1,649
decreases – BGN 9,228 thousand (2013: BGN 9,414 thousand).	(924)	(941)
Recognised deferred taxes originated in prior years	23	(187)
Prior periods tax expense	-	39
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**2,374**	**4,349***

* Restated

The tax effects related to other components of comprehensive income are as follows:

	2014 BGN'000			2013 BGN'000		
	Pre-tax amount	**Tax effects recognised in equity**	**Amount net of tax**	**Pre-tax amount**	**Tax effects recognised in equity**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
(Losses)/gains on revaluation of property, plant and equipment	(6)	1	(5)	(353)	35	(318)
Remeasurements of defined benefit pension plans	(299)	-	(299)	(80)	-	(80)
Items that may be reclassified to profit or loss						
Net change in the fair value of available-for-sale financial assets	113	-	113	470	-	470
Total other comprehensive income for the year	**(192)**	**1**	**(191)**	**37**	**35**	**72**

15. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2014 BGN '000	***2013 BGN '000***
Net change in fair value of available-for-sale financial assets:		
Gains arising during the year	250	470
Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year	(137)	-
Losses on revaluation of property, plant and equipment	(6)	(353)
Remeasurements of defined benefit pension plans	(299)	(80)
	(192)	**37**
Income tax relating to items of other comprehensive income	1	35
Total comprehensive income for the year	**(191)**	**72**

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Machinery and equipment*		*Other*		*Assets in progress*		*Total*	
	2014 *BGN'000*	***2013*** *BGN'000*	***2014*** *BGN'000*	***2013*** *BGN '000*	***2014*** *BGN'000*	***2013*** *BGN'000*	***2014*** *BGN'000*	***2013*** *BGN'000*	***2014*** *BGN '000*	***2013*** *BGN'000*
Book value										
Balance at 1 January	**115,866**	**69,913**	**140,110**	**88,057**	**23,773**	**23,276**	**983**	**78,617**	**280,732**	**259,863**
Additions	242	2,637	1,258	1,196	275	910	8,949	19,558	10,724	24,301
Transfer to property, plant and equipment	158	43,758	1,929	51,856	686	1,510	(2,773)	(97,124)	-	-
Effect from remeasurement to fair value	-	-	-	-	9	-	-	-	9	-
Allowance for impairment	-	(277)	(274)	(74)	(98)	(2)	-	-	(372)	(353)
Disposals	(18)	(165)	(831)	(925)	(2,436)	(1,921)		(68)	(3,285)	(3,079)
Balance at 31 December	**116,248**	**115,866**	**142,192**	**140,110**	**22,209**	**23,773**	**7,159**	**983**	**287,808**	**280,732**
Accumulated depreciation										
Balance at 1 January	**9,245**	**6,654**	**59,873**	**54,557**	**13,456**	**11,791**	**-**	**-**	**82,574**	**73,002**
Depreciation charge for the year	3,551	2,418	8,066	6,158	3,624	2,449	-	-	15,241	11,025
Depreciation written-off	(5)	(8)	(818)	(854)	(1,918)	(784)	-	-	(2,741)	(1,646)
Allowance for impairment	-	181	6	12	-	-	-	-	6	193
Balance at 31 December	**12,791**	**9,245**	**67,127**	**59,873**	**15,162**	**13,456**	**-**	**-**	**95,080**	**82,574**
Carrying amount at 31 December	**103,457**	**106,621**	**75,065**	**80,237**	**7,047**	**10,317**	**7,159**	**983**	**192,728**	**198,158**
Carrying amount at 1 January	**106,621**	**63,259**	**80,237**	**33,500**	**10,317**	**11,485**	**983**	**78,617**	**198,158**	**186,861**

As at 31 December 2014, Company's tangible fixed assets included: land amounting to BGN 31,031 thousand (31 December 2013: BGN 30,865 thousand) and buildings of carrying amount BGN 72,426 thousand (31 December 2013: BGN 75,756 thousand).

Tangible fixed assets in progress as at 31 December include:

- advances granted for:
  - purchase of machinery and equipment – BGN 3,431 thousand (31 December 2013: BGN 734 thousand);
  - construction and assembly works – BGN 841 thousand (31 December 2013: none);
- expenses on construction of a new warehouse unit – BGN 2,787 thousand (31 December 2013: BGN 36 thousand);
- buildings reconstruction – BGN 100 thousand (31 December 2013: BGN 210 thousand);
- other – none (31 December 2013: BGN 3 thousand).

As at 31 December 2014, the carrying amount of property, plant and equipment includes machinery and equipment for a new tablet production facility at the amount of BGN 7,052 thousand (31 December 2013: BGN 7,410 thousand) purchased using a grant under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 *(Note 33).*

The amount of other assets as at 31 December 2014 includes also biological assets – Golden Chain (Laburnum anagyroides) plantation at the amount of BGN 128 thousand (31 December 2013: BGN 119 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 7,074 thousand as at 31 December 2014 to related parties (31 December 2013: BGN 7,277 thousand). In addition, tangible fixed assets at carrying amount of BGN 33 thousand were leased to third parties as at 31 December 2014 (31 December 2013: BGN 45 thousand).

Finance lease

As at 31 December 2014, assets at the carrying amount of BGN 166 were acquired under finance lease contracts (31 December 2013: BGN 221 thousand).

Other data

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

- Buildings – BGN 12 thousand (31 December 2013: none);
- Machinery and equipment – BGN 29,253 thousand (31 December 2013: BGN 24,585 thousand);
- Motor vehicles – BGN 3,399 thousand (31 December 2013: BGN 907 thousand);
- Furniture and fixtures – BGN 4,898 thousand (31 December 2013: BGN 4,481 thousand);
- Other – BGN 41 thousand (31 December 2013: none).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 December 2014 in relation with received loans:

- Land and buildings with carrying amount of BGN 21,995 thousand and BGN 64,800 thousand, respectively (31 December 2013: BGN 12,311 thousand and BGN 64,410 thousand, respectively) *(Notes 30, 35 and 41);*
- Pledges on equipment – BGN 26,086 thousand (31 December 2013: BGN 35,967 thousand) *(Notes 30 and 35).*

In 2014, there were no capitalised to the acquisition cost expenses on interest and charges related to assets satisfying the conditions for capitalisation (2013: BGN 1,091 thousand).

Revaluation of property, plant and equipment to fair value

As at 31 December 2011, the Company performed an overall review and assessment for price changes of property, plant and equipment with the assistance of certified appraisers: As a result of this review it made the latest revaluation of property, plant and equipment the results of which were accounted for.

The following two basic approaches and valuation methods were used in these revaluations to measure the fair value of the different types of tangible fixed assets:

- ‘Market-based approach” through the ‘Market comparables (analogues) method’ – with regard to land and buildings for which actual market existed, analogous properties and transactions with them were observed and basis for comparison was available – their market price determined under the comparative method was accepted as fair value;
- 'Assets (cost)-based approach' through the 'Method of amortised recoverable amount' – for special-purpose buildings for which neither actual market nor comparable sales of analogous assets existed – their amortised recoverable amount at current purchase prices was accepted as their fair value and under the hypothesis of their common use in technologically-related production business process (including the term) and taking into account: physical ware, functional and economic impairment.

Revaluation reserve at the amount of BGN 2,706 thousand was then recognised as a result of the revaluation net of impairment.

The Company’s management again analysed its key assets price changes occurred as at 31 December 2014 and concluded that no conditions and grounds were available for a new revaluation of the assets before expiry of adopted usual term of five years *(Note 2.7)*.

17. INTANGIBLE ASSETS

	Intellectual property rights		*Software*		*Assets in progress*		*Total*	
	2014	***2013***	***2014***	***2013***	***2014***	***2013***	***2014***	***2013***
Book value	***BGN ‘000***	***BGN‘000***	***BG ‘000***	***BGN‘000***	***BGN‘000***	***BGN‘000***	***BGN‘000***	***BGN‘000***
Balance at 1 January	**2,329**	**1,941**	**4,124**	**2,277**	**353**	**2,105**	**6,806**	**6,323**
Additions	-	13	30	11	65	460	95	484
Disposals	(747)	(1)	-	-	-	-	(747)	(1)
Transfer	287	376	-	1,836	(287)	(2,212)	-	-
Balance at 31 December	**1,869**	**2,329**	**4,154**	**4,124**	**131**	**353**	**6,154**	**6,806**
Accumulated amortisation								
Balance at 1 January	**1,186**	**820**	**1,959**	**1,530**	**-**	**-**	**3,145**	**2,350**
Amortisation charge for the year	429	367	537	429	-	-	966	796
Amortisation written-off	(399)	(1)	-	-	-	-	(399)	(1)
Balance at 31 December	**1,216**	**1,186**	**2,496**	**1,959**	**-**	**-**	**3,712**	**3,145**
Carrying amount at 31 December	**653**	**1,143**	**1,658**	**2,165**	**131**	**353**	**2,442**	**3,661**
Carrying amount at 1 January	**1,143**	**1,121**	**2,165**	**747**	**353**	**2,105**	**3,661**	**3,973**

The rights on intellectual property include mainly products of development activities.

Intangible assets in progress as at 31 December include:

- expenses on permits for use of medicinal products – BGN 131 thousand (31 December 2013: BGN 353 thousand);
- other – none (31 December 2013: BGN 3 thousand).

18. INVESTMENT PROPERTY

	31.12.2014 *BGN '000*	*31.12.2013* *BGN '000*
Balance at 1 January	**22,555**	**19,391**
Net loss on fair value adjustment, included in profit or loss *(Note 5)*	(187)	(200)
Additions	-	3,265
Capitalised costs	-	99
Balance at 31 December	**22,368**	**22,555**

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

Group of assets	*31.12.2014* *BGN '000*	*31.12.2013* *BGN '000*
Warehouse premises	18,498	18,622
Offices	2,310	2,329
Production buildings	1,140	1,170
Social objects	420	434
Total	**22,368**	**22,555**

There are established encumbrances as at 31 December 2014 on investment property as follows:

- mortgages of warehouse premises – BGN 8,095 thousand (31 December 2013: BGN 7,988 thousand) *(Note 35);*
- pledges on attached equipment – BGN 6,138 thousand (31 December 2013: BGN 7,592 thousand) *(Note 35).*

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. The 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*	*Social objects*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance at 1 January 2012	**18,810**	**-**	**144**	**437**	**19,391**
Purchases and capitalised costs	-	2,332	1,032	-	3,364
Net change in fair value through profit or loss – unrealised *(Note 5)*	(188)	(3)	(6)	(3)	(200)
Balance at 31 December 2013	**18,622**	**2,329**	**1,170**	**434**	**22,555**
Net change in fair value through profit or loss – unrealised *(Note 5)*	(124)	(19)	(30)	(14)	(187)
Balance at 31 December 2014	**18,498**	**2,310**	**1,140**	**420**	**22,368**

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	*a. Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term for entrance into rental deals
	b. Cost approach Valuation technique: Method of replacement costs – depreciated recoverable amount (supportive valuation technique)	Adjusted prices for construction of identical properties and purchase prices of machinery and equipment, similar to those attached
Offices, production buildings and social objects	*Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term for entrance into rental deals

19. INVESTMENTS IN SUBSIDIARIES

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

		31.12.2014 BGN '000	*Interest %*	*31.12.2013 BGN '000*	*Interest %*
Sopharma Trading AD	Bulgaria	28,529	71.89	30,126	75.92
Briz OOD	Latvia	22,270	66.13	9,172	53.14
Unipharm AD	Bulgaria	19,448	49.99	19,448	49.99
Bulgarian Rose Sevtopolis AD	Bulgaria	8,729	49.99	8,729	49.99
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Ivanchich and sons	Serbia	5,739	51.00	5,739	51.00
Vitamina AD	Ukraine	3,544	99.56	6,187	99.56
Momina Krepost AD	Bulgaria	2,701	52.98	2,701	52.97
Pharmalogistica AD	Bulgaria	1,911	76.54	1,911	76.54
Sopharma Buildings REIT	Bulgaria	595	40.75	643	42.89
Sopharma Kazakhstan EOOD	Kazakhstan	502	100.00	-	-
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Sopharma Ukraine	Ukraine	9	100.00	230	100.00
		103,068		**93,977**	
Paid unregistered capital increase	Latvia	-		7,230	
Total		**103,068**		**101,207**	

As at 31 December 2014, the investments in the subsidiaries Sopharma Poland OOD – in liquidation, Poland, Extab Corporation, USA and Sopharma USA were fully impaired (31 December 2013: the investments in Sopharma Poland OOD – in liquidation, Poland and Extab Corporation, USA and Sopharma USA were fully impaired).
Sopharma AD has direct or indirect control on the above-mentioned companies.

The scope of activities of the subsidiaries and the dates of their acquisition are as follows:

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- Bulgarian Rose-Sevtopolis AD – Scope of activities: manufacture of finished drug forms. Date of acquisition – 22 April 2004.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- Sopharma Poland OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Sopharma USA – Scope of activities: trade in pharmaceuticals and food supplements. Date of acquisition – 25 April 1997.

- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Sopharma Zdrovit AD – Scope of activities: research and development activities in the field of medical science and pharmacy, wholesale in pharmaceuticals. Date of acquisition – 27 September 2007. On 25 February 2013 the liquidation procedure of Sopharma Zdrovit AD, Poland, was completed and the company was deleted from the National Court Register of Poland.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- Ivanchich and sons OOD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 10 April 2008.
- Sopharma Buildings REIT – Scope of activities: investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale. Date of acquisition – 4 August 2008.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Briz OOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- Extab Corporation – Scope of activities: management of financial assets and investment portfolios. Date of acquisition – 5 August 2009.
- Unipharm AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 27 October 2010.
- Sopharma Warsaw EOOD – Scope of activities: market and public opinion research. Date of acquisition – 23 November 2010.
- Sopharma Ukraine EOOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 7 August 2012.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 30 September 2014.

The shares of Bulgarian Rose Sevtolopis AD are traded on the stock exchange, the average monthly price of realized transactions for December 2014 being BGN 1.68 per share (December 2013: BGN 1.66). The earnings per share based on accounting net assets for 2014 are BGN 2.08 (2013: BGN 2.00).

The shares of Sopharma Trading AD are traded on the stock exchange, the average monthly price of realized transactions for December 2014 being BGN 5.53 per share (December 2013: BGN 3.13).

The earnings per share based on net assets for 2014 are BGN 1.90 (2013: BGN 1.80).

The shares of Momina Krepost AD are traded on the stock exchange, the average monthly price of realized transactions for December 2014 being BGN 3.28 per share (December 2013: BGN 2.91).

The earnings per share based on accounting net assets for 2014 are BGN 2.92 (2013: BGN 2.99).

The shares of Sopharma Buildings REIT are traded on the stock exchange at a limited volumes and no deals were realised in December 2014 (December 2013: no deals). The earnings per share based on accounting net assets for 2014 are BGN 2.24 (2013: BGN 2.26).

The shares of Unipharm AD are traded on the stock exchange, the average monthly price of realized transactions for December 2014 being BGN 3.21 per share (December 2013: BGN 2.78). The earnings per share based on accounting net assets for 2014 are BGN 3.01 (2013: BGN 2.80).

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
	31.12.2014	***31.12.2013***
Acquisition cost (cost)	***BGN '000***	***BGN '000***
Balance at 1 January	**107,293**	**106,248**
Additional interest acquired	13,101	3,070
Newly acquired subsidiaries	502	-
Interest sold without loss of control	(1,632)	(2,025)
Balance at 31 December	**119,264**	**107,293**
Accrued impairment		
Balance at 1 January	**13,316**	**13,316**
Accrued impairment	2,880	-
Balance at 31 December	**16,196**	**13,316**
Carrying amount at 31 December	**103,068**	**93,977**
Carrying amount at 1 January	**93,977**	**92,932**

In 2014, the newly established subsidiary is TOO Sopharma Kazakhstan (2013: none).

On 19 June 2014 Sopharma AD and Bulgarian Rose Sevtopolis AD concluded a contract for transformation through take-over regulating the transformation procedure for take-over of Bulgarian Rose Sevtopolis AD (transferring company) by Sopharma AD (receiving company). The approved effective date of the take-over for accounting purposes was 1 January 2015.The entry in the Commercial Registry was done on 26 February 2015 *(Note 45)*.

Impairment of investments in subsidiaries

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) or termination of activities of the subsidiary where investments have been made; reporting of losses for a longer period of time (over three years) as well as reporting of negative net assets or assets below the registered share capital. The calculations were made by the management with the assistance of independent certified appraisers. As a base for projected pre-tax cash flows, the Company uses financial budgets developed by the respective companies that cover a 3- to 5-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans. The key assumptions used in the calculations of recoverable amount are as follows:

- growth rate – from 0% to 31.5%;
- growth after the projected period upon calculation of terminal value – 1.5% to 5%;
- interest rate /cost of debt/ - from 3.5% to 16.1%;
- discount rate (based on WACC) – from 9.1% to 32.2%.

The key assumptions used in the calculations have been determined specifically for each 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 assumptions of the management for impairment of investments are made through the prism of its projections and intents on the future economic benefits, which are expected from the subsidiaries, including trade and industrial experience, ensuring position in the Bulgarian and in foreign markets, expectations for future sales, etc.

As a result of the calculations, made in 2014, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 2,880 thousand was necessary (2013: none) *(Note 11)*.

Significant goodwill has been recognised on the acquisition of two investments in subsidiaries. With regard to these investments, the analysis of the reasonably possible changes in the key assumptions, used for the calculation of value in use, shows that the carrying amount of the respective investment would be higher than its recoverable amount:

a. in case of change (increase) in the discount rate within the range from 0.03% to 1.85%; and
b. in case of change in the growth (decrease) after the projected period– from 0.1% to 2%.

20. INVESTMENTS IN ASSOCIATES

The carrying amount of the investments in associates is BGN 7,015 thousand and includes interest at the rate of 24.38% of the capital of Medica AD (31 December 2013: none).

Medica AD has a scope of activity covering the production of dressing materials, sanitary and hygiene articles and finished medicinal products.

The movement of investments in associates is presented below:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Balance at 1 January	**-**	**-**
Transfer of available-for-sale investments	3,878	-
Acquisition of shares	3,152	-
Sale of shares	(15)	-
Balance at 31 December	**7,015**	**-**

Sopharma AD acquired significant influence on Medica AD through the purchase of a package of shares on 4 November 2014.

Impairment of investments in associates

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in associates. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) or termination of activities of the subsidiary where investments have been made; reporting of losses for a longer period of time (over three years) as well as reporting of negative net assets or assets below the registered share capital. The calculations were made by the management with the assistance of independent certified appraisers. As a base for projected pre-tax cash flows, the Company uses financial budgets developed by the respective companies that cover a 3- to 5-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans. The key assumptions used in the calculations of recoverable amount are as follows:

- growth rate – 2%;
- growth after the projected period upon calculation of terminal value – 2%;
- interest rate /cost of debt/ – 7%;
- discount rate (based on WACC) – 8.9%.

The tests and assumptions of the management for impairment of investments are made through the prism of its projections and intents on the future economic benefits, which are expected from the associates, including trade and industrial experience, ensuring position in the Bulgarian and in foreign markets, expectations for future sales, etc.

As a result of the calculations made in 2014, no necessity was identified for recognition of impairment of the investments in the associate.

21. AVAILABLE-FOR-SALE INVESTMENTS

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

	31.12.2014 BGN '000	*Interest %*	*31.12.2013 BGN '000*	*Interest %*
Doverie Obedinen Holding AD	1,836	9.90	1,532	9.90
Olainfarm AD - Latvia	1,256	0.77	1,313	0.77
Lavena AD	1,007	8.49	982	8.37
Hydroizomat AD	202	10.63	270	10.02
Elana Agrocredit AD	102	1.95	101	1.95
Todorov AD	26	4.70	39	4.50
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Medica AD	-	-	2,539	10.21
Vratitsa AD	-	0.27	1	0.21
Sopharma Properties AD	-	-	75	0.20
Total	**4,439**		**6,862**	

All above companies except for Olainfarm AD, Latvia, have their seat and operations in Bulgaria.

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

Available-for-sale investments	***31.12.2014*** Number of shares	Fair value per share	Fair value as per the statement of financial position	***31.12.2013*** Number of shares	Fair value per share	Fair value as per the statement of financial position
		BGN	***BGN***		***BGN***	***BGN***
Doverie Obedinen Holding AD	1,854,352	0.99	1,836	1,855,552	0.83	1,532
Olainfarm AD - Latvia	108,500	11.58	1,256	108,500	12.10	1,313
Lavena AD	22,641	44.48	1,007	22,322	44.01	982
Hydroizomat AD	317,901	0.64	202	299,499	0.90	270
Elana Agrocredit AD	100,000	1.02	102	100,000	1.01	101
Todorov AD	159,919	0.16	26	152,919	0.25	39
Vratitsa AD	1,015	0.00	-	780	0.21	1
Maritzatex AD	58,476	0.00	-	58,201	0.00	-
Sopharma Properties AD	-	-	-	30,656	2.46	75
Medica AD	-	-	-	1,027,561	2.47	2,539
			4,429			**6,852**

The investments in Ecobulpack AD and UniCredit Bulbank AD are valued and presented at acquisition price (cost).

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

Fair value hierarchy

Available-for-sale financial investments (shares)	*Fair value 31.12.2014*	*Level 1*	*Level 2*	*Level 3*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Doverie Obedinen Holding AD	1,836	-	-	1,836
Olainfarm AD - Latvia	1,256	1,256	-	-
Lavena AD	1,007	-	1,007	-
Hydroizomat AD	202	-	202	-
Elana Agrocredit AD	102	102	-	-
Todorov AD	26	26	-	-
Total	**4,429**	**1,384**	**1,209**	**1,836**

Available-for-sale financial investments (shares)	*Fair value 31.12.2013*	*Level 1*	*Level 2*	*Level 3*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Doverie Obedinen Holding AD	1,532	-	-	1,532
Medica AD	2,539	-	-	2,539
Olainfarm AD - Latvia	1,313	1,313	-	-
Lavena AD	982	-	982	-
Hydroizomat AD	270	-	270	-
Elana Agrocredit AD	101	101	-	-
Sopharma Properties AD	75	-	75	-
Todorov AD	39	39	-	-
Vratitsa AD	1	1	-	-
Total	**6,852**	**1,454**	**1,327**	**4,071**

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

Available-for-sale financial investments (shares)	*Level)*	*Level 2*	*Level 3*	*Total*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Balance at 1 January 2013	**1,078**	**844**	**17,540**	**19,462**
Purchases	110	674	8	792
Emissions	-	174	-	174
Sales	(9)	(232)	(1,380)	(1,621)
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securities*	1	(13)	(5,666)	(5,678)
Transfers to Level 1	-	(29)	-	(29)
Transfers from Level 2	29	-	-	29
Unrealised loss included in the current profit and loss for the year *(Note 13)*	-	(316)	(6,431)	(6,747)
Unrealised gain included in other comprehensive income *(Note 15)*	245	225	-	470
Balance at 31 December 2013	**1,454**	**1,327**	**4,071**	**6,852**
Purchases	2	75	1,347	1,424
Sales	-	(121)	(10)	(131)
Transfer to investments in associates *(Note 20)*	-	-	(3,878)	(3,878)
Realised gain/(loss) included in the current profit and loss for the year in the item Finance costs – *Net loss on transactions with securities*	-	(2)	2	-
Unrealised loss included in the current profit and loss for the year *(Note 13)*	(8)	(80)	-	(88)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 15)*	(64)	10	304	250
Balance at 31 December 2014	**1,384**	**1,209**	**1,836**	**4,429**

Valuation techniques and significant unobservable inputs

The table below shows the valuation techniques applied as at 31 December 2014 for fair value measurement at Level 2 and Level 3 as well as the used significant unobservable inputs:

Available-for-sale financial investments (shares)	*Valuation approaches and techniques*	*Significant unobservable inputs, considerably adjusted observable data and average values*
Level 2	*Market comparables approach:* Valuation technique: Market multiples method	-
Level 3	*a. Income approach* Valuation technique: Discounted cash flows method	* projected annual rate of revenue growth * revenue growth rate after the projected period * projected annual rate of cost growth * discount rate (based on WACC)
	b. Market approach Valuation technique: Market multiples method (supportive valuation technique)	-

Quantitative information about fair value measurements (Level 3)

The table below presents quantitative information regarding fair value measurements in which significant unobservable in which significant unobservable inputs have been used (Level 3):

Valuation technique	*Unobservable inputs*	*Range (weighted average)*	*Relationship between significant unobservable inputs and fair value measurement – sensitivity to key assumptions*
Discounted cash flows			The estimated fair value would increase (decrease), if:
	* projected annual rate of revenue growth	* 1 % (weighted average 1%)	* the projected annual revenue growth rate was higher (lower)
	* revenue growth rate after the projected period	* 2 % (weighted average 2%)	* the revenue growth rate after the projected period was higher (lower)
	* projected annual rate of cost growth	* 0 % (weighted average 0%)	* the projected annual growth rate of expenses was lower (higher)
	* discount rate (based on WACC)	* 10.8 % (weighted average 10.8%)	* the discount rate was lower (higher)

Sensitivity analysis

The sensitivity analysis of the fair value of available-for-sale financial investments (shares) Level 3 to the significant unobservable inputs is based on the reasonably possible changes (increase or decrease) by 0.5% of each of the individual indicators presented:

a. change in EBIDTA
b. change in post-projection revenue growth
c. discount rate (based on WACC)

while accepting that the others remain unchanged.

The effects of the change in the significant unobservable inputs Level 3 on: (a) the *fair value* of the measured assets (Level 3), (b) the *current profit for the year*, and (c) the equity component *Available-for-sale financial assets reserve as at 31 December 2014*, are presented in the table below:

Significant unobservable inputs	*Fair value of available-for-sale financial investments (shares) (Level 3)*		*Current profit for the year*		*Equity – component Available-for-sale financial assets reserve*	
Effect in BGN'000	*Increase*	*Decrease*	*Increase*	*Decrease*	*Increase*	*Decrease*
31 December 2014						
Change in EBIDTA	52	(5)	-	(5)	52	-
Change in post-projection revenue growth	143	(127)	-	(127)	143	-
Discount rate (based on WACC)	(182)	202	(182)	-	-	202

22. LONG-TERM RECEIVABLES FROM RELATED PARTIES

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

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Long-term loans granted	32,857	25,214
Long-term rental deposit granted	293	435
Total	**33,150**	**25,649**

The long-term loans are granted to companies related through key managing personnel.

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2014*		*31.12.2013*	
	'000			*BGN'000*	*BGN'000 including interest*	*BGN'000*	*BGN'000 including interest*
EUR	11,831	01.12.2016	5.00%	26,038	*217*	22,554	*1,750*
EUR	3,272	01.12.2016	5.00%	6,819	*419*	2,660	*160*
				32,857	***636***	**25,214**	***1,910***

The long-term loans granted to related parties are intended to support the financing of these companies' activities under common strategic objectives. They are secured by pledges on securities (shares).
The long-term deposit receivable is from a company under a common indirect control under a concluded rental contract for administrative offices with validity term on 1 August 2022.

23. OTHER NON-CURRENT RECEIVABLES

Company's *other long-term receivables* represent a loan granted to a third party with maturity on 2 August 2016 and contracted annual interest rate of 8.08% at the total amount of BGN 6 thousand as at 31 December 2014: (31 December 2013: BGN 17 thousand).

24. INVENTORIES

Company's *inventories* include:

	31.12.2014 *BGN '000*	*31.12.2013* *BGN '000*	
Materials	24,793	28,045	
Finished products	21,888	16,606	
Semi-finished products	3,809	2,392	
Work in progress	3,345	4,001	*
Goods	212	205	
Total	**54,047**	**51,249**	

* Restated

Materials by type are as follows:

	31.12.2014 *BGN '000*	*31.12.2013* *BGN '000*
Basic materials	22,727	26,698
Materials in transit	1,323	455
Technical materials	424	325
Auxiliary materials	236	296
Spare parts	35	57
Other	48	214
Total	**24,793**	**28,045**

Basic materials by type are as follows:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Substances	13,264	18,837
Chemicals	4,176	1,693
Ampoules, vials and tubes	2,633	3,215
Packaging materials	1,104	1,427
PVC and aluminium foil	1,022	942
Herbs	528	584
Total	**22,727**	**26,698**

Finished products existing at 31 December include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Tablet dosage forms	14,545	9,670
Ampoule dosage forms	3,980	3,435
Syrups	1,723	1,130
Other	1,640	2,371
Total	**21,888**	**16,606**

Pledges were established on Company's inventories with a carrying amount of BGN 30,388 thousand as at 31 December 2014 as collateral to bank loans received (31 December 2013: BGN 25,106 thousand) *(Notes 35 and 41).*

25. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Receivables from subsidiaries	*79,618*	*78,319*
Impairment of doubtful and uncollectable receivables	*(2,286)*	*(178)*
	77,332	78,141
Receivables from companies related through key managing personnel	14,476	17,732
Receivables from companies under a common indirect control	7,697	7,477
Total	**99,505**	**103,350**

The receivables from related parties by type are as follows:

	31.12.2014	*31.12.2013*
	BGN '000	***BGN '000***
Receivables on sales of finished products and materials	69,473	69,135
Impairment of doubtful and uncollectable receivables	*(2,278)*	*(171)*
	67,195	68,964
Trade loans granted	32,318	34,393
Impairment of doubtful and uncollectable receivables	*(8)*	*(7)*
	32,310	34,386
Total	**99,505**	**103,350**

The receivables on sales are interest-free and BGN 26,776 thousand of them are denominated in BGN (31 December 2013: BGN 29,469 thousand), in EUR – BGN 40,419 thousand (31 December 2013: BGN 39,466 thousand) and in UAH – none (31 December 2013: BGN 29 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 28,390 thousand as at 31 December 2014 or 42.25 % of all receivables on sales of finished products and materials to related parties (31 December 2013: BGN 31,466 thousand – 45,60 %).

The Company usually negotiates with its subsidiaries payment terms of 180 days for receivables on sales of finished products and up to 90 days for receivables on sales of materials (incl. substances).

The Company determined a period of up to 270 days in total for which no interest was usually charged to sales counterparts - related parties and this was in line with the specifics of the end users – hospitals, Health Insurance Fund and other. Any delay after this period is regarded by the Company as an indicator for impairment. The management assesses collectability on an individual basis by analysing the specific receivables and the circumstances relating to the delay in order that impairment is charged.

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

	31.12.2014	*31.12.2013*
	BGN '000	***BGN '000***
up to 30 days	14,888	23,320
from 31 to 90 days	18,332	20,469
from 91 to 180 days	4,747	10,089
from 181 to 240 days	1,708	1,446
over 241 days	1,238	-
Total	**40,913**	**55,324**

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

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
from 31 to 90 days	178	2,433
from 91 to 180 days	4,224	8,717
from 181 to 365 days	15,942	2,490
Total	**20,344**	**13,640**

The past due but not impaired receivables are mainly from subsidiaries, which are in a process of implementing the purposes of the Group for expanding its market share, promotion of its products and its strategic objectives for presence in the territory in which they operate. The collection methods and schemes are under current monitoring at 'company' level and 'group' level and comply with the achievement of the market objectives of the group.

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

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
over 1 year	8,216	171
Allowance for impairment	(2,278)	(171)
Total	**5,938**	**-**

The past due receivables are partially secured by taking into account the collateral provided by debtor companies mainly as pledges on corporate shares and securities.

The *movement of the allowance for impairment* associated with the receivables, under sales of finished products and materials, from related parties is as follows:

	2014	***2013***
	BGN '000	***BGN '000***
Balance at the beginning of the year	**171**	**501**
Stated impairment	2,183	95
Reversed impairment	(76)	(225)
Amounts written-off as uncollectable	-	(200)
Balance at the end of the year	**2,278**	**171**

Special pledges have been established as at 31 December 2014 on receivables from related parties at the amount of BGN 16,229 thousand (31 December 2013: BGN 16,229 thousand) as collateral under bank loans received (Note 35).

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

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Receivables from companies related through key managing personnel	14,475	17,726
Subsidiaries	*10,211*	*9,190*
Impairment of trade loans	*(8)*	*(7)*
	10,203	9,183
Companies under a common indirect control	7,632	7,477
Total	**32,310**	**34,386**

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

	2014	*2013*
	BGN '000	*BGN '000*
Balance at the beginning of the year	**7**	**2,358**
Stated impairment	1	7
Amounts written-off as uncollectable	-	(2,358)
Balance at the end of the year	**8**	**7**

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2014*		*31.12.2013*	
	'000			*BGN'000*	*BGN'000 including interest*	*BGN'000*	*BGN'000 including interest*
to companies related through key managing personnel							
EUR	10,824	31.12.2015	4.50%	9,537	*18*	11,346	*16*
BGN	34,020	31.12.2015	5.50%	3,097	*9*	5,662	*14*
BGN	6,000	22.07.2015	5.50%	1,236	*26*	-	-
BGN	1,300	31.12.2015	5.50%	477	*17*	551	*50*
BGN	190	31.12.2015	5.50%	128	*1*	167	-
to companies under a common indirect control							
EUR	7,661	31.12.2015	4.50%	7,632	*155*	7,477	-
to subsidiaries							
EUR	2,770	31.12.2015	6.10%	6,711	*1,294*	6,381	*963*
BGN	2,460	31.12.2015	5.50%	2,903	*158*	2,026	*26*
USD	205	31.12.2015	3.50%	355	*26*	303	*13*
BGN	600	31.12.2015	5.50%	151	-	402	*2*
USD	25	31.12.2015	3.50%	46	*5*	39	*4*
USD	20	31.12.2015	3.50%	37	*5*	32	*3*
				32,310	***1,714***	**34,386**	***1,091***

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

26. TRADE RECEIVABLES

Trade payables include:

	31.12.2014 ***BGN '000***	***31.12.2013*** ***BGN '000***
Receivables from clients	23,247	21,652
Impairment of doubtful and uncollectable receivables	(1,001)	(580)
	22,246	21,072
Advances granted	1,022	1,083
Total	**23,268**	**22,155**

The *receivables from clients* are interest-free and BGN 208 thousand of them are denominated in BGN (31 December 2013: BGN 324 thousand), in EUR – BGN 19,705 thousand (31 December 2013: BGN 19,090 thousand), in PLN – BGN 1,383 thousand (31 December 2013: BGN 1,484 thousand), and in USD – BGN 950 thousand (31 December 2013: BGN 174 thousand).

About 83.41 % of the receivables from clients are attributable to three main counterparts of the Company (for 2013: 72.69%).

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

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

Special pledges on trade receivables at the amount of BGN 22,246 thousand were established at 31 December 2014 as collateral to bank loans received (31 December 2013: BGN 21,072 thousand) *(Notes 35 and 41)*.

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

	31.12.2014 ***BGN '000***	***31.12.2013*** ***BGN '000***
up to 30 days	1,313	2,084
from 31 to 90 days	13,093	14,333
from 91 to 180 days	799	106
from 181 to 365 days	-	2,628
Total	**15,205**	**19,151**

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

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
from 31 to 90 days	6,823	567
from 91 to 180 days	171	1,272
from 181 to 365 days	47	82
Total	**7,041**	**1,921**

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

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
up to 30 days	262	-
from 91 to 180 days	112	-
over 1 year	627	580
Allowance for impairment	(1,001)	(580)
	-	**-**

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

	2014	*2013*
	BGN '000	*BGN '000*
Balance at the beginning of the year	**580**	**583**
Stated impairment	637	378
Amounts written-off as uncollectable	(198)	(354)
Reversed impairment	(18)	(27)
Balance at the end of the year	**1,001**	**580**

The *advances granted to suppliers* as at 31 December are for the purchase of:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Inventories	693	843
Services	329	240
Total	**1,022**	**1,083**

The *advances granted* are regular. They include: in BGN – BGN 864 thousand (31 December 2013: BGN 583 thousand), in EUR – BGN 95 thousand (31 December 2013: BGN 163 thousand), in USD – BGN 63 thousand (31 December 2013: BGN 323 thousand) and in other currency – none (31 December 2013: BGN 14 thousand).

27. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2014 BGN '000	31.12.2013 BGN '000
Taxes refundable	6,313	4,165
Prepayments	2,945	1,331
Loans granted to third parties	*1,069*	*881*
Impairment of doubtful and uncollectable receivables	*(37)*	-
	1,032	881
Litigation securities granted *(Note 41)*	286	253
Receivables on deposits placed as guarantees	246	258
Amounts granted to an investment intermediary	125	327
Court and awarded receivables	*2,099*	*2,211*
Impairment of court receivables	*(2,099)*	*(2,211)*
	-	-
Other	77	26
Total	**11,024**	**7,241**

Taxes refundable include:

	31.12.2014 BGN '000	31.12.2013 BGN '000
Excise duties	3,859	3,819
Corporate tax	1,883	42
Value added tax	571	304
Total	**6,313**	**4,165**

Prepayments include:

	31.12.2014 BGN '000	31.12.2013 BGN '000
Rentals	1,660	49
Advertising	435	541
Insurance	402	415
Subscriptions	294	249
Licence and patent fees	36	35
Vouchers	1	20
Other	117	22
Total	**2,945**	**1,331**

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2014*		*31.12.2013*	
	'000			*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
					including interest		*including interest*
BGN	713	31.12.2015	7.00%	751	*38*	503	*20*
BGN	102	23.06.2015	5.50%	281	*1*	-	-
BGN	1,800	31.12.2015	6.80%	-	-	336	-
BGN	31	31.12.2014	6.00%	-	-	35	*4*
BGN	350	31.12.2014	6.80%	-	-	7	-
				1,032	***39***	**881**	***24***

The loans granted to third parties are not secured. They are extended as a temporary support to finance the working capital of the respective entity – loan recipient.

Deposits placed as guarantees include:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Guarantees under construction contracts	110	110
Guarantees under contracts for fuel supply	86	86
Guarantees under communication service contracts	34	34
Guarantees for medicinal products supply	-	16
Other	16	12
Total	**246**	**258**

28. CASH AND CASH EQUIVALENTS

Cash includes:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Cash at current bank accounts	2,173	7,604
Cash in hand	143	67
Blocked cash under issued bank guarantees	21	-
Cash and cash equivalents for cash flows	**2,337**	**7,671**
Blocked cash under litigations	598	527
Total	**2,935**	**8,198**

Cash at current bank accounts are as follows: in BGN: BGN 399 thousand (31 December 2013: BGN 749 thousand), in EUR – BGN 993 thousand (31 December 2013: BGN 5,720 thousand), in USD – BGN 658 thousand (31 December 2013: BGN 1,135 thousand) and in other currency – BGN 123 thousand (31 December 2013: none).

The achieved average interest rate is from 0.01 % to 0.02 % (31 December 2013: from 0.01 % to 0.06%).

Cash in hand is mainly denominated in BGN.

With regard to the current accounts in foreign currencies there is an active distraint levied under a litigation at the amount of BGN 598 thousand (USD 372 thousand) (31 December 2013: BGN 527 thousand) (Note 41).

29. EQUITY

Share capital

As at 31 December 2014, the registered share capital of Sopharma AD amounted to BGN 132,000 thousand distributed in 132,000,000 shares of nominal value BGN 1 each.

The shares are ordinary, non-cash, with right of dividend and liquidation share and are registered for trade in the Bulgarian Stock Exchange – Sofia AD and Warsaw Stock Exchange.

At an extraordinary General Meeting of the Shareholders, held on 9 January 2015, a decision was taken to increase the share capital of Sopharma AD in relation with the take-over of Bulgarian Rose Sevtopolis AD by Sopharma AD *(Note 45)*.

Ordinary shares issued and fully paid	*Shares*	*Share capital net of treasury shares*
	number	*BGN '000*
Balance at 1 January 2013	**128,513,769**	**119,844**
Treasury shares purchased	(1,975,445)	(5,923)
Treasury shares sold	1,000	3
Expenses on treasury shares	-	(29)
Balance at 31 December 2013	**126,539,324**	**113,895**
Balance at 1 January 2014	**126,539,324**	**113,895**
Treasury shares sold	650,577	2,165
Treasury shares purchased	(304,031)	(1,257)
Expenses on treasury shares	-	(6)
Balance at 31 December 2014	**126,885,870**	**114,797**

The ***treasury shares*** were 5,114,130 at the amount of BGN 17,203 thousand as at 31 December 2014 (31 December 2013: (31 December 2013: 5,460,676 at the amount of BGN 18,105 thousand). The number of shares purchased through an investment intermediary in the current year was 304,031 (2013: 1,975,445 shares) and the number of shares sold was 650,577 (2013: 1,000 shares).

As at 31 December 2014, Company's ***shares held by its subsidiaries and associates*** were as follows:

- by Sopharma Trading AD – 23,857 shares (31 December 2013: 23,500 shares).
- by Unipharm AD – 191,166 shares (31 December 2013: 191,166 shares).
- by Medica AD – 2,390 shares (31 December 2013: none).

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

	31.12.2014 ***BGN '000***	***31.12.2013*** ***BGN '000***
Statutory reserves	33,555	30,051
Property, plant and equipment revaluation reserve	22,434	23,392
Available-for-sale financial assets reserve	1,097	984
Additional reserves	189,157	166,508
Total	**246,243**	**220,935**

Statutory reserves at the amount of BGN 33,555 thousand (31 December 2013: BGN 30,051 thousand) were set aside from allocation of profit and included all amounts for the Reserve Fund.

The movements of statutory reserves were as follows:

	2014 ***BGN '000***	***2013*** ***BGN '000***
Balance at 1 January	**30,051**	**25,934**
Distribution of profit	3,504	4,117
Balance at 31 December	**33,555**	**30,051**

The ***property, plant and equipment revaluation reserve*** amounting to BGN 22,434 thousand (31 December 2013: BGN 23,392 thousand), was set aside from the positive difference between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

The movements of property, plant and equipment revaluation reserve were as follows:

	2014 ***BGN '000***	***2013*** ***BGN '000***
Balance at 1 January	**23,392**	**25,093**
Transfer to retained earnings	(953)	(1,383)
Impairment of property, plant and equipment	(6)	(353)
Deferred tax relating with revaluations	1	35
Balance at 31 December	**22,434**	**23,392**

The ***available-for-sale financial assets reserve***, amounting to BGN 1,097 thousand (31 December 2013: BGN 984 thousand) was set aside from the effects of subsequent revaluation of available-for-sale investments to fair value.

The movements of available-for-sale financial assets reserve were as follows:

	2014	*2013*
	BGN '000	*BGN '000*
Balance at 1 January	**984**	**514**
Net gain arising on revaluation of available-for-sale financial assets	250	470
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	(137)	-
Balance at 31 December	**1,097**	**984**

Additional reserves at the amount of BGN 189,157 thousand (31 December 2013: BGN 166,508 thousand) were set aside from distribution of profits under a decision of shareholders and could be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves were as follows:

	2014	*2013*
	BGN '000	*BGN '000*
Balance at 1 January	**166,508**	**138,387**
Distributed profit in the year	22,649	28,121
Balance at 31 December	**189,157**	**166,508**

Retained earnings, amounting to BGN 28,666 thousand as at 31 December 2014 (31 December 2013: BGN 35,905 thousand).

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

	2014	*2013*
	BGN '000	*BGN '000*
Balance at 1 January	**35,905**	**42,230***
Net profit for the year	26,531	33,540*
Transfer from property, plant and equipment revaluation reserve	953	1,383
Effect of treasury shares sold	619	-
Distribution of profit for reserves	(26,153)	(32,238)
Payment of dividend	(8,890)	(8,930)
Actuarial losses from remeasurements	(299)	(80)
Balance at 31 December	**28,666**	**35,905**

Basic earnings per share

	31.12.2014	*31.12.2013*
Weighted average number of shares	126,913,907	127,422,985
Net profit for the year (BGN'000)	26,531	33,540*
Basic earnings per share (BGN)	**0.21**	**0.26***

* Restated

30. LONG-TERM BANK LOANS

			31.12.2014			*31.12.2013*		
Currency	*Contracted loan amount*	*Maturity*	*Non-current portion*	*Current portion*	*Total*	*Non-current portion*	*Current portion*	*Total*
	'000		*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Investment-purpose loans								
EUR	32,000	15.04.2021	**37,972**	**7,391**	**45,363**	**48,723**	**3,822**	**52,545**

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of 2.8 points (2013: 3-month EURIBOR plus a mark-up of 2.8 points).

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

- Mortgages of real estate – BGN 45,850 thousand (31 December 2013: BGN 47,690 thousand) *(Note 16);*
- Special pledges on:
  - machinery and equipment – BGN 21,354 thousand (31 December 2013: BGN 29,960 thousand) *(Note 16).*

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

31. DEFERRED TAX LIABILITIES

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

	temporary difference	*tax*	*temporary difference*	*tax*
	31.12.2014	***31.12.2014***	***31.12.2013***	***31.12.2013***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	52,018	5,202	46,576	4,658
including Revaluation reserve	*21,090*	*2,109*	*22,341*	*2,234*
Investment property	*3,787*	379	*3,092*	309
including Revaluation reserve	*187*	*19*	*187*	*19*
Total deferred tax liabilities	**55,805**	**5,581**	**49,668**	**4,967**
Receivables	(5,548)	(555)	(2,860)	(286)
Payables to personnel	(4,246)	(425)	(3,945)	(395)
Inventories	(3,240)	(324)	(318) *	(32) *
Intangible assets	(2,751)	(275)	(3,048)	(305)
Accrued liabilities	(135)	(14)	(53)	(5)
Biological assets	(3)	-	(12)	(1)
Total deferred tax assets	**(15,923)**	**(1,593)**	**(10,236)**	**(1,024)**
Deferred income tax liabilities, net	**39,882**	**3,988**	**39,432**	**3,943**

* Restated

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Company to generate sufficient taxable profit in the future, had been taken into account.

The Company did not recognise deferred taxes at the amount of BGN 1,510 thousand (31 December 2013: BGN 1,222 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is recognised amounts to BGN 15,098 thousand (31 December 2013: BGN 12,218 thousand).

The change in the balance of deferred taxes for 2014 is as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2014*	*Recognised in the statement of comprehensive income*	*Recognised in equity*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2014*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(4,658)	(570)	1	25	(5,202)
Investment property	(309)	(70)	-	-	(379)
Receivables	286	269	-	-	555
Payables to personnel	395	30	-	-	425
Intangible assets	305	(30)	-	-	275
Inventories	32*	292	-	-	324
Accrued liabilities	5	9	-	-	14
Biological assets	1	(1)	-	-	-
Total	**(3,943)**	**(71)**	**1**	**25**	**(3,988)**

The change in the balance of deferred taxes for 2013 was as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2013*	*Recognised in the statement of comprehensive income*	*Recognised in equity*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2013*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(5,148)	-	35	27	(5,086)
Investment property	99	20			119
Receivables	411	(125)	-	-	286
Payables to personnel	371	24	-	-	395
Intangible assets	314	(9)	-	-	305
Inventories *	(1) *	33 *	-	-	32*
Accrued liabilities	8	(3)	-	-	5
Biological assets	1	-	-	-	1
Total	**(3,945)**	**(60)**	**35**	**27**	**(3,943)**

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Long-term retirement benefit obligations	2,027	1,710
Long-term benefit obligations for tantieme	192	145
Total	**2,219**	**1,855**

Long-term retirement benefit obligations

The long-term retirement benefit obligations to personnel include the present value of Company's liability at the date of the statement of financial position to pay indemnities to individuals of its employees upon coming of age for retirement.

In accordance with the Labour Code in Bulgaria each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for more than 10 years of its service for the same employer – six gross monthly salaries at the time of retirement. This is a defined benefits plan. *(Note 2.21).*

For the purpose of establishing the amount of these obligations to personnel, the Company has assigned an actuarial valuation as at 31 December 2014 by using the services of a certified actuary.

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

	2014	*2013*
	BGN '000	*BGN '000*
Present value of the obligation at 1 January	**1,710**	**1,479**
Current service cost	192	185
Interest cost	72	72
Net actuarial loss recognised for the period	11	-
Payments for the year	(257)	(106)
Remeasurement gains or losses for the year, including:	299	80
Actuarial losses arising from changes in financial assumptions	*25*	*58*
Actuarial losses arising from changes in demographic assumptions	*2*	*2*
Actuarial losses arising from experience adjustments	*272*	*20*
Present value of the obligation at 31 December	**2,027**	**1,710**

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

	2014	***2013***
	BGN '000	***BGN '000***
Current service cost	192	184
Interest cost	72	72
Net actuarial loss recognised for the period	11	-
Components of defined benefit plans cost recognised in profit or loss *(Note 8)*	**275**	**256**
Remeasurement gains or losses on the retirement benefit obligations, including:		
Actuarial losses arising from changes in financial assumptions	25	53
Actuarial losses arising from changes in demographic assumptions	2	1
Actuarial losses arising from experience adjustments	272	26
Components of defined benefit plans cost recognised in other comprehensive income *(Note 15)*	**299**	**80**
Total	**574**	**336**

The following actuarial assumptions were used in calculating the present value of the liabilities as at 31 December 2014:

- The discount factor is calculated by using 3.8% annual interest rate as basis (2013: 4%). 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 (2013: 5 %);
- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2011 - 2013 (2013: 2010 - 2012);
- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2013: from 0% to 16 %).

This defined benefit plan exposes the Company to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: Company's management defines them as follows:

- investment risk – as far as this is unfunded plan, the Company 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:

a. salary growth
b. discount rate
c. staff turnover rate

on the amount of the stated current service cost and interest cost for 2014 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:

	2014		***2013***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	27	(24)	23	(20)
Change in discount rate	(3)	3	(5)	5
Change in staff turnover rate	(26)	24	(22)	21

Effects of changes in the basic assumptions on the amount of stated liability:

	2014		***2013***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	156	(138)	131	(115)
Change in discount rate	(138)	159	(115)	133
Change in staff turnover rate	(148)	142	(124)	121

The weighted average duration of the defined benefit obligation to personnel is 7.4 years (31 December 2013: 7.4 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 length of service retirement*	*Ill health retirement*	*Total*
	BGN '000	*BGN '000*	*BGN '000*
Payments in 2015	403	8	411
Payments in 2016	198	8	206
Payments in 2017	208	8	216
Payments in 2018	203	8	211
Payments in 2019	186	8	194
	1,198	**40**	**1,238**

Long-term benefit obligations for tantieme

As at 31 December 2014, the long-term benefit obligations to personnel include also the amount of BGN 192 thousand (31 December 2013: BGN 145 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months (until 2016 and 2017).

33. GOVERNMENT GRANTS

The long-term government grant at the amount of BGN 3,358 thousand (31 December 2013: BGN 3,534 thousand) is under a concluded contract for gratuitous financial aid under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013 in relation with the acquisition of machinery and equipment for a new tablet production facility *(Note 16)*.

The current portion of the grant, amounting to BGN 177 thousand (31 December 2013: BGN 178 thousand) will be recognised as current income over the following 12 months from the date of the separate statement of financial position and is presented as 'other current liabilities' *(Note 40)*.

34. FINANCE LEASE LIABILITIES

The finance lease liabilities, included in the statement of financial position, are under agreements for acquisition of motor vehicles. They are presented net of the future interest due and are as follows:

Term	*31.12.2014*	*31.12.2013*
	BGN '000	*BGN '000*
Up to one year	60	56
Over one year	34	49
Total	**94**	**105**

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

Term	***31.12.2014***	***31.12.2013***
	BGN '000	***BGN '000***
Up to one year	70	69
Over one year	38	54
	108	123
Future finance costs under finance leases	(14)	(18)
Present value of finance lease liabilities	**94**	**105**

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

35. SHORT-TERM BANK LOANS

Currency	***Contracted amount***	***Maturity***	***31.12.2014***	***31.12.2013***
	'000		***BGN'000***	***BGN'000***
Bank loans (overdrafts)				
EUR	20,000	31.08.2015	38,847	38,522
EUR	10,000	14.01.2015	13,477	8,472
BGN	10,000	31.08.2015	9,990	10,002
EUR	5,000	15.06.2015	9,786	9,806
EUR	5,000	15.06.2015	1,083	5,072
			73,183	**71,874**
Extended credit lines				
BGN	18,000	30.10.2015	9,965	13,041
BGN	15,000	31.01.2015	4,494	7,335
EUR	5,000	31.08.2015	3,119	6,628
			17,578	**27,004**
Total			**90,761**	**98,878**

The bank loans received in Euro have been agreed at interest rate based on 3-month EURIBOR plus a mark-up of up to 2.45 points and monthly EURIBOR plus a mark-up of up to 3 points while the loans received in BGN are based on 3-month SOFIBOR plus 2.1 points, monthly SOFIBOR plus 2 points, weekly SOFIBOR plus 3 points and 2-week SOFIBOR plus 3.25 points (2013: for bank loans in Euro – 3-month EURIBOR plus a mark-up of up to 3.2 points and monthly EURIBOR plus a mark-up of up to 3.25 points and for loans in BGN – 3-month SOFIBOR plus 2.1 points, monthly SOFIBOR plus 2 points, weekly SOFIBOR plus 3 points and 2-week SOFIBOR plus 3.25 points). Loans are intended for providing working capital.

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

- Mortgages of real estate – BGN 38,264 thousand (31 December 2013: BGN 37,019 thousand) *(Notes 16 and 18);*
- Special pledges on:

  - machinery and equipment – BGN 10,871 thousand (31 December 2013: BGN 13,599 thousand) *(Notes 16 and 18);*
  - inventories – BGN 35,525 thousand (31 December 2013: BGN 35,525 thousand) *(Note 24);*
  - receivables from related parties – BGN 16,229 thousand (31 December 2013: BGN 16,229 thousand) *(Note 25);*
  - trade receivables – BGN 22,763 thousand (31 December 2013: BGN 22,763 thousand) *(Note 26);*
  - trade receivables from third parties – BGN 12,773 thousand (31 December 2013: BGN 4,950 thousand).

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

36. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2014 ***BGN '000***	***31.12.2013*** ***BGN '000***
Payables to subsidiaries	6,994	4,717
Payables to companies under a common indirect control	761	793
Payables to companies under a common control through key managing personnel	171	2,304
Payables to associates	2	-
Payables to main shareholding companies	1	22
Total	**7,929**	**7,836**

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

	31.12.2014 ***BGN '000***	***31.12.2013*** ***BGN '000***
Supply of services	3,877	6,099
Supply of inventories	3,545	152
Unpaid share capital in newly established subsidiary	404	-
Supply of non-current assets	103	1,585
Total	**7,929**	**7,836**

The trade payables to related parties are regular and are not additionally secured by the Company. The payables in Bulgarian Levs amount to BGN 5,820 thousand (31 December 2013: BGN 7,550 thousand), in EUR – BGN 1,153 thousand (31 December 2013: BGN 22 thousand), in PLN – BGN 552 thousand (31 December 2013: BGN 264 thousand) and in KZT – BGN 404 thousand (31 December 2013: none).

The common average credit period, for which no interest is charged on trade payables to related parties, is 90 days. The Company has no past due trade payables to related parties.

37. TRADE PAYABLES

Trade payables include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Payables to suppliers	6,364	4,568
Advances received	189	405
Total	**6,553**	**4,973**

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Payables to foreign suppliers	5,039	2,871
Payables to local suppliers	1,325	1,697
Total	**6,364**	**4,568**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in foreign currency amount to BGN 5,145 thousand (31 December 2013: BGN 2,871 thousand). They include: in EUR – BGN 2,972 thousand (31 December 2013: BGN 2,507 thousand), in USD – BGN 1,916 thousand (31 December 2013: BGN 285 thousand), in PLN – BGN 244 thousand (31 December 2013: BGN 53 thousand) and in other currencies – BGN 13 thousand (31 December 2013: BGN 26 thousand).

The common credit period, for which no interest is charged on trade payables, is 180 days. The Company has no past due trade payables.

The Company has placed deposits as security*(Notes 22 and 27)* for payables to suppliers under commercial transactions at the amount of BGN 539 thousand (31 December 2013: BGN 693 thousand).

38. TAX PAYABLES

Tax payables include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Withholding taxes	554	341
Individual income taxes	194	193
Value added tax	154	-
Corporate tax	-	709
Total	**902**	**1,243**

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

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

Tax audit is performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms finally the tax liability of the respective company-tax liable person except in the cases explicitly stated by law.

39. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Payables to personnel, including:	3,445	3,037
tantieme	*1,810*	*1,537*
current liabilities	*917*	*805*
accruals on unused compensated leaves	*718*	*695*
Payables for social security/health insurance, including:	768	699
current liabilities	*655*	*591*
accruals on unused compensated leaves	*113*	*108*
Total	**4,213**	**3,736**

40. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Awarded amounts under litigations	299	253
Dividend liabilities	250	279
Government grants *(Note 33)*	177	178
Deductions from work salaries	175	189
Finance lease liabilities *(Note 34)*	60	56
Other	8	20
Total	**969**	**975**

41. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

In 2012, the claim of Sopharma AD against a client in relation with unpaid supplies of goods at the amount of EUR 1,034 thousand (BGN 2,022 thousand) was satisfied by a ruling dated 23 October 2012 of the Court of Arbitration in Paris *(Note 45)*.

In 2013 the Court of Arbitration in Paris entitled Sopharma AD to file a complementary claim as follows:

- to compensate the loss of business suffered as a result of a harm on Company's image – at the amount of EUR 1,240 thousand (BGN 2,425 thousand).
- to compensate court and other expenses at the amount of USD 75 thousand (BGN 121 thousand) and EUR 153 thousand (BGN 298 thousand).

By a ruling of the Polish bankruptcy court, dated 11 July 2014, the insolvency proceedings for the client-debtor were terminated because of insufficient availability of funds in the bankruptcy estate to satisfy the creditors with accepted receivables.

In accordance with a ruling of Sofia Court of Appeal, dated 8 November 2012, Sopharma AD was found guilty jointly with one of its subsidiaries for obligations not paid by this subsidiary to a supplier at the amount of BGN 153 thousand (USD 95 thousand), including principal and penalties, as well as for statutory interest on this amount as of 22 December 2005 to the date of ultimate payment of the obligation, and court expenses at the amount of BGN 12 thousand. The liability is included in full in the statement of financial position of the subsidiary as at 31 December 2014 (*Note 45)*. Sopharma AD has blocked funds at the amount of BGN 598 thousand (USD 372 thousand) as collateral under the case *(Note 28).*

Significant irrevocable agreements and commitments

In 2013, the Company assumed a self-participation commitment at the amount of BGN 3,000 thousand under a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 2013. The execution of the contract is envisaged to last 18 months and is related mainly with financing the implementation of innovative products in the ampoule production section.

In 2013, the Company received a government grant at the amount of BGN 3,787 thousand by virtue of a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007–2013 *(Notes 34 and 40)* intended for technological renovation and modernisation of tablet production facilities *(Note 16).* The Company undertook a commitment that for a period of 5 years after the completion of the project, counted as of 11 March 2013 and in line with the contract, the project shall not be subject to significant modifications affecting its essence and the terms and conditions for its execution or giving rise to unjustified benefits to the Company, neither modifications resulting from change in the nature of ownership over the assets acquired in relation with the grant. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Issued and granted guarantees

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

Company	Maturity period	Currency	Contracted amount		Amount of the guarantee as at 31.12.2014
			original currency	BGN'000	BGN'000
Sopharma Trading AD	2015-2019.	EUR	64,145	125,441	111,713
Sopharma Trading AD	2015	BGN	14,732	14,732	13,384
Vitamini OAO	2016	EUR	7,000	13,691	13,691
Biopharm Engineering AD	2023	BGN	4,250	4,250	4,240
Pharmaplant AD	2015-2019	BGN	1,329	1,329	1,268
Telecomplect AD	2015	BGN	5,009	5,009	1,252
Veta Pharma AD	2015	BGN	1,000	1,000	993
Energoinvestment AD	2015	BGN	2,018	2,018	518
Momina Krepost AD	2015	BGN	500	500	263
Mineralcommerce AD	2015-2017	EUR	150	294	205
Mineralcommerce AD	2015	BGN	175	175	175
Bulgarian Rose Sevtopolis AD	2015	EUR	1,617	3,163	40
					147,742

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

- Mortgages of real estate – BGN 10,776 thousand (31 December 2013: BGN 8,598 thousand) *(Note 16);*
- Special pledges on:
  - machinery and equipment – none (31 December 2013: BGN 2,221 thousand) *(Note 16);*
  - installations – none (31 December 2013: BGN 233 thousand) *(Note 16);*
  - inventories – BGN 17,623 thousand (31 December 2013: BGN 17,623 thousand) *(Note 24);*
  - trade receivables – BGN 12,000 thousand (31 December 2013: BGN 19,705 thousand) *(Note 26).*

Other

The Company has met its obligations under the Waste Management Act (WMA) and therefore, has not included a product charge liability in the statement of financial position regardless of the fact that the official document evidencing that Ecobulpack (the organisation in which it is a member) has fulfilled its commitments under WMA, has not been issued yet at the date of preparation of these financial statements.

42. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Company. The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the Company's finished products and services and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

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

Categories of financial instruments:

Financial assets	***31.12.2014***	***31.12.2013***
	BGN '000	***BGN '000***
Available-for-sale financial assets	***4,439***	***6,862***
Available-for-sale investments (in shares)	*4,439*	*6,862*
Loans and receivables	***156,471***	***151,535***
Long-term receivables from related parties	*33,150*	*25,649*
Other long-term receivables	*6*	*17*
Short-term receivables from related parties	*99,505*	*103,350*
Trade receivables	*22,246*	*21,072*
Other receivables	*1,564*	*1,447*
Cash and cash equivalents	2,935	8,198
Total financial assets	***163,845***	***166,595***

Financial liabilities	***31.12.2014***	***31.12.2013***
	BGN '000	***BGN '000***
Bank loans	***136,124***	***151,423***
Long-term bank loans	37,972	48,723
Short-term bank loans	*90,761*	*98,878*
Current portion of long-term bank loans	*7,391*	*3,822*
Other liabilities	***14,936***	***13,054***
Trade payables to related parties	*7,929*	*7,836*
Trade payables	*6,364*	*4,568*
Finance lease liabilities	*94*	*105*
Other liabilities	*549*	*545*
Total financial liabilities at amortised cost	***151,060***	***164,477***

Foreign currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its basic raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

The remaining part of Company's operations is usually denominated in BGN and/or EUR. The Company sells part of its finished products in Russia in EUR and thus eliminated the currency risk, related with the devaluation of the Russian Rouble in the recent months. The accounts and balances with the subsidiaries in Ukraine are also denominated in EUR. Nevertheless, in relation with the instability in the country and the continuing devaluation of the Ukrainian Hryvnia, for the purpose of mitigating the currency risk the Company, through its subsidiaries, exercises currency policy that includes the application of advance payments and decreasing the terms of deferred payment and immediate translation in EUR of proceeds in a local currency as well as using higher trade margins to compensate eventual future devaluation of the Hryvnia.

To control foreign currency risk, the Company has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

The assets and liabilities denominated in BGN and foreign currency are presented as follows:

31 December 2014	in USD	in EUR	in BGN	in other currency	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	-	1,256	3,183	-	4,439
Receivables and loans granted	1,674	117,154	36,248	1,395	156,471
Cash and cash equivalents	1,256	1,014	534	131	2,935
Total financial assets	**2,930**	**119,424**	**39,965**	**1,526**	**163,845**
Bank loans	-	111,675	24,449	-	136,124
Other liabilities	2,201	4,125	7,303	1,307	14,936
Total financial liabilities	**2,201**	**115,800**	**31,752**	**1,307**	**151,060**

31 December 2013	in USD	in EUR	in BGN	in other currency	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	-	-	5,549	1,313	6,862
Receivables and loans granted	802	109,427	39,783	1,523	151,535
Cash and cash equivalents	1,662	5,720	814	2	8,198
Total financial assets	**2,464**	**115,147**	**46,146**	**2,838**	**166,595**
Bank loans	-	106,167	45,256	-	151,423
Other liabilities	538	2,529	9,539	448	13,054
Total financial liabilities	**538**	**108,696**	**54,795**	**448**	**164,477**

Foreign currency sensitivity analysis

The effect of Company's sensitivity to 10 % increase/decrease in current exchange rates of BGN to USD and to other currency exposures, based on the structure of foreign currency assets and liabilities at 31

December and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax financial result and on the equity.

		USD	
		31.12.2014	**31.12.2013**
		BGN '000	**BGN '000**
Financial result	+	66	173
Accumulated profits	+	66	173
Financial result	-	(66)	(173)
Accumulated profits	-	(66)	(173)

In case of 10 % increase in the rate of USD to BGN, the final effect on post-tax profit of the Company for 2014 would be an increase by BGN 66 thousand (0.25 %) (2013: increase at the amount of BGN 173 thousand) (0.52 %). The effect in terms of value on Company's equity – through the component 'retained earnings' – would be the same.

On 10 % decrease in the exchange rate of USD to BGN, the ultimate impact on the (post-tax) profit of the Company would be equal and reciprocal of the stated above.

The impact of the remaining currencies (other than USD) on 10 % increase in their exchange rates to BGN on Company's (post-tax) profit is insignificant. The ultimate effect thereon for 2014 is an increase by BGN 96 thousand (0.36%) (2013: increase at the amount of BGN 184 thousand (0.55%)). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

In management's opinion, the presented above currency sensitivity analysis based on the balance sheet structure of foreign currency denominated assets and liabilities is representative for the currency sensitivity of the Company for the year.

Price risk

On the one hand, the Company is exposed to price risk due to two main factors:

a) contingent increase of supplier prices of raw and starting materials, since more than 80% of the raw and starting materials are imported and they represent 50% on the average of all production costs; and

b) growing competition on the Bulgarian pharmaceutical market is also reflected in drug prices.

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

On the other hand, the Company is exposed to a price risk related to the held thereby shares, classified as available-for-sale investments. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries. In addition, at this stage, because of the economic and financial crisis, the management has taken a decision for a significant reduction in its operations on stock markets, retaining of the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators as well as the development of the operations in the environment of crisis.

Credit risk

Credit risk is the risk that any of the Company's clients will fail to discharge in full and within the normally envisaged terms the amounts due under trade receivables. The latter are presented in the statement of financial position at net value after deducting the impairment related to doubtful and 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 Company has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with distributors that work the National Health Insurance Fund and the state hospitals also require the implementation of deferred payments policy. In this sense, regardless of credit risk concentration, it is controlled through the choice of trade counterparts, current monitoring of their liquidity and financial stability as well as direct communication with them and search of prompt measures on first indications for existing problems.

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

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Client 1	19%	23%
Client 2	21%	24%
Client 3	25%	20%

The Company currently manages the concentration of receivables from related parties by applying credit limits and additional securities such as pledge on securities and other assets and use of promissory notes.

The Company has concentration of trade receivable from a single client, other than related parties, which is accountable for 71.32% of all trade receivables (31 December 2013: 53.81%).

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

Collectability of receivables is controlled directly by the Executive Director, Finance Director and Commercial Director. Their responsibility is to control the receivables on a regular basis depending on the objective situation on the market, the position and the potential of the respective counterpart and respectively, the market objectives and needs of the Company.

The Company has developed policy and procedures to assess the creditworthiness of its counterparts, including related parties, and to assign credit rating and credit limits by groups of clients. Where necessary, additional collateral is required, such as pledges and mortgages, avals, and other.

The financial resources of the Company as well as the settlement operations are concentrated in different first-class banks. To distribute cash flows among them, Company management takes into consideration a great number of factors, as the amount of capital, reliability, liquidity, the credit potential of the bank etc.

Liquidity risk

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally all of its obligations within their maturity.

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Maturity analysis

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

31 December 2014	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*
Bank loans	19,017	1,711	13,415	66,367	8,245	23,496	9,847	**142,098**
Other loans and liabilities	12,070	2,241	22	580	32	5	-	**14,950**
Total liabilities	**31,087**	**3,952**	**13,437**	**66,947**	**8,277**	**23,501**	**9,847**	**157,048**

31 December 2013	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*
Bank loans	8,627	20,399	55,991	24,279	8,899	24,918	17,603	**160,716**
Other loans and liabilities	6,622	5,806	15	575	46	8	-	**13,072**
Total liabilities	**15,249**	**26,205**	**56,006**	**24,854**	**8,945**	**24,926**	**17,603**	**173,788**

Risk of interest-bearing cash flows

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

(a) optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and

(b) combined structure of interest rates on loans comprising two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favourable for the Company. The 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 unfavourable change of cash flows is reduced to a minimum.

The Company's management currently monitors and analyses its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. The impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated based on these scenarios. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

31 December 2014	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	4,439	-	-	4,439
Loans and receivables	92,655	-	63,816	156,471
Cash and cash equivalents	143	2,792	-	2,935
Total financial assets	**97,237**	**2,792**	**63,816**	**163,845**
Bank loans	83	136,041	-	136,124
Other loans and liabilities	14,842	94	-	14,936
Total financial liabilities	**14,925**	**136,135**	**-**	**151,060**

31 December 2013	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	6,862	-	-	6,862
Loans and receivables	94,064	-	57,471	151,535
Cash and cash equivalents	67	8,131	-	8,198
Total financial assets	**100,993**	**8,131**	**57,471**	**166,595**
Bank loans	266	151,157	-	151,423
Other loans and liabilities	12,949	105	-	13,054
Total financial liabilities	**13,215**	**151,262**	**-**	**164,477**

The table below demonstrates the Company's sensitivity to possible changes in interest rates by 0.50 points based on the structure of assets and liabilities as at 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.

2014	*Increase/decrease in interest rate*	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	increase	(503)	(503)
BGN	increase	(110)	(110)
EUR	decrease	503	503
BGN	decrease	110	110

2013	*Increase/decrease in interest rate*	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	increase	(478)	(478)
BGN	increase	(204)	(204)
EUR	decrease	478	478
BGN	decrease	204	204

Capital risk management

The capital management objectives of the Company are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital.

The Company currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total amount of employed capital. Net debt is calculated as total borrowings as presented in the statement of financial position and cash and cash equivalents. Total employed capital amount is calculated as the sum of equity and net debt.

In 2014, the strategy of the Company management was to maintain the ratio within 25% – 30% (2013: 25% – 30%).

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

	2014	*2013*
	BGN '000	*BGN '000*
Total borrowings, including:	**136,218**	**151,528**
bank loans	*136,124*	*151,423*
finance lease liabilities	*94*	*105*
Less: Cash and cash equivalents	**(2,935)**	**(8,198)**
Net debt	**133,283**	**143,330**
Total equity	**389,706**	**370,735***
Total capital	**522,989**	**514,065**
Gearing ratio	**0.25**	**0.28**

The liabilities shown in the table are disclosed in *Notes 28, 30, 33, 35 and 40.*

Fair value measurement

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

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

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

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

43. SEGMENT REPORTING

Company's segment reporting is organised on the basis of the production of main groups of finished products:

- Tablet dosage forms
- Ampoule dosage forms
- Other dosage forms.

The other dosage forms include mainly: lyophilic products, ointments, syrups, drops, suppositories, etc.

Segment revenue, expenses and results include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Segment revenue	136,700	147,808	34,405	34,685	30,351	33,561	201,456	216,054
Segment cost	(59,628)	(60,896)	(17,545)	(15,306)	(22,707)	(22,686)	(99,880)	(98,888)
Segment result	**77,072**	**86,912**	**16,860**	**19,379**	**7,644**	**10,875**	**101,576**	**117,166**
Non-allocated operating income							4,013	3,079
Non-allocated operating expenses							(81,757)	(74,812)
Profit from operations							**23,832**	**45,433**
Impairment of non-current assets							(3,252)	(193)
Finance income/(costs), net							8,325	(7,351)
Profit before income tax							**28,905**	**37,889**
Income tax expense							(2,374)	(4,349)
Net profit for the year							**26,531**	**33,540**

Segment assets and liabilities include:

Segment assets	*Tablet dosage forms*		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment	81,137	83,262	17,326	18,330	11,928	15,067	110,391	116,659
Inventories	28,659	26,265	13,163	13,073	9,947	10,359	51,769	49,697
Segment assets	**109,796**	**109,527**	**30,489**	**31,403**	**21,875**	**25,426**	**162,160**	**166,356**
Non-allocated assets							**393,835**	**383,946**
Total assets							**555,995**	**550,302**

Segment liabilities	*Tablet dosage forms*		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Payables to personnel	169	170	145	116	206	233	520	519
Social security payables	66	66	52	44	81	89	199	199
Segment liabilities	**235**	**236**	**197**	**160**	**287**	**322**	**719**	**718**
Non-allocated liabilities							**165,570**	**178,849**
Total liabilities							**166,289**	**179,567**

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

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Capital expenditures	919	13,827	3,773	-	197	461	4,889	14,288
Depreciation and amortisation	4,675	1,889	1,866	1,592	1,960	1,747	8,501	5,228
Non-monetary expenses, other than depreciation and amortisation	2,137	806	463	132	685	361	3,285	1,299

44. RELATED PARTY TRANSACTIONS

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2013 and 2014
Donev Investments Holding AD	Main shareholding company	2013 and 2014
Sopharma Trading AD	Subsidiary company	2013 and 2014
Pharmalogistica AD	Subsidiary company	2013 and 2014
Bulgarian Rose Sevtopolis AD	Subsidiary company	2013 and 2014
Sopharma Poland OOD – in liquidation	Subsidiary company	2013 and 2014
Sopharma USA	Subsidiary company	2013 and 2014
Electroncommerce EOOD	Subsidiary company	2013 and 2014
Biopharm Engineering AD	Subsidiary company	2013 and 2014
Vitamina AD	Subsidiary company	2013 and 2014
Ivanchich and Sons OOD	Subsidiary company	2013 and 2014
Sopharma Buildings REIT	Subsidiary company	2013 and 2014
Momina Krepost AD	Subsidiary company	2013 and 2014
Extab Corporation	Subsidiary company	2013 and 2014
Extab Pharma Limited	Subsidiary company through Extab Corporation	2013 and 2014
Briz OOD	Subsidiary company	2013 and 2014
Unipharm AD	Subsidiary company	2013 and 2014
Sopharma Warsaw EOOD	Subsidiary company	2013 and 2014
Sopharma Ukraine EOOD	Subsidiary company	2013 and 2014
Sopharma Kazakhstan EOOD	Subsidiary company	as from 30/09/2014
Sopharma Zdrovit AD – in liquidation	Subsidiary company	until 22/03/2013
Medica AD	Associate company	as from 04/11/2014
Phyto Palauzovo AD	Subsidiary company through Bulgarian Rose – Sevtopolis AD	2013 and 2014
Brititrade SOOO	Subsidiary company through Briz OOD	2013 and 2014
Tabina OOO	Subsidiary company through Briz OOD	2013 and 2014
ZAO Interpharm	Joint venture through Briz OOD	2013 and 2014
Brizpharm SOOO	Subsidiary company through Briz OOD	2013 and 2014
Vivaton Plus OOO	Subsidiary company through Briz OOD	2013 and 2014
OOO Farmacevt Plus	Subsidiary company through Briz OOD	as from 01/06/2013 and 2014
OOO Farmacevt Plus	Associate company through Briz OOD	from 29/04/2013 to 31/05/2013
UAB TBS Pharma ZAO	Subsidiary company through Briz OOD	as from 01/03/2013 and 2014
Vestpharm ODO	Subsidiary company through Briz OOD	as from 04/07/2013 and 2014
Vestpharm ODO	Associate company through Briz OOD	from 01/01/2013 to 03/07/2013
Alean ODO	Subsidiary company through Briz OOD	as from 07/02/2013 and 2014
Alean ODO	Associate company through Briz OOD	from 01/01/2013 to 06/02/2013
OOO NPK Biotest	Subsidiary company through Briz OOD	as from 02/09/2013 and 2014
OOO NPK Biotest	Associate company through Briz OOD	from 18/01/2013 to 01/09/2013
BelAgroMed	Subsidiary company through Briz OOD	as from 30/07/2013 and 2014
BelAgroMed	Associate company through Briz OOD	from 18/01/2013 to 29/07/2013
SpetsAfarmacia BOOO	Joint venture through Briz OOD	as from 20/01/2014
SpetsAfarmacia BOOO	Associate company through Briz OOD	from 03/09/2013 to 19/01/2014
Med-dent OOO	Joint venture through Briz OOD	as from 17/12/2013 and 2014
Med-dent OOO	Associate company through Briz OOD	from 03/09/2013 to 16/12/2013
OOO Bellerofon	Joint venture through Briz OOD	as from 27/11/2014
OOO Bellerofon	Associate company through Briz OOD	from 28/08/2014 to 26/11/2014
Sopharma Properties REIT	Company under a common indirect control	2013 and 2014
Sofprint Group AD	Company under a common indirect control	2013 and 2014
Elpharma AD	Company under a common indirect control	2013 and 2014
Pharmachim Holding EAD	Company under a common indirect control	2013
Kaliman RT AD	Company under a common indirect control	2013
Ceiba Pharmacies and Drugstores AD	Company under a common indirect control	2013

SCS Franchise AD	Company under a common indirect control	2013
Mineralcommerce AD	Company under a common indirect control	2013
Sofia Inform AD	Company under a common indirect control	2013
Sofconsult Group AD	Company under a common indirect control	2013
Sanita Franchising AD	Company under a common indirect control	2013
Telso AD	Company related through key managing personnel	2013 and 2014
Telecomplect AD	Company related through key managing personnel	2013 and 2014
DOH Group	Company related through key managing personnel	2013 and 2014
Riton P	Company related through key managing personnel	2013
Media Group Bulgaria Holding	Company related through key managing personnel	until 25/04/2013

Supplies from related parties:	***2014 BGN '000***	***2013 BGN '000***
Supply of inventories from:		
Companies under a common indirect control	9,748	7,826
Subsidiaries	3,695	4,171
Companies related through key managing personnel	290	657
	13,733	**12,654**
Supply of services from:		
Subsidiaries	38,706	32,801
Companies related through key managing personnel	4,042	2,777
Companies under a common indirect control	2,091	2,160
Main shareholding companies	250	291
	45,089	**38,029**
Supply of property, plant and equipment from:		
Companies related through key managing personnel	390	4,075
	390	**4,075**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	3,099	11,760
Subsidiaries	38	-
	3,137	**11,760**
Prepayments		
Companies under a common indirect control	1,613	-
Subsidiaries	301	1,154
	1,914	**1,154**
Accrued dividends to:		
Main shareholding companies	4,222	4,268
Companies related through key managing personnel	464	464
Subsidiaries	15	17
	4,701	**4,749**
Total	**68,964**	**72,421**

Sales to related parties	*2014*	*2013*
	BGN '000	*BGN '000*
Sales of finished products to:		
Subsidiaries	104,010	117,446
Companies under a common indirect control	-	187
	104,010	**117,633**
Sales of goods and materials to:		
Subsidiaries	17,555	16,136
Companies under a common indirect control	1,002	874
Companies related through key managing personnel	51	4
	18,608	**17,014**
Sales of services to:		
Subsidiaries	1,712	1,763
Companies under a common indirect control	90	98
Companies related through key managing personnel	50	95
	1,852	**1,956**
Sales of property, plant and equipment to:		
Subsidiaries	-	38
	-	**38**
Interest on loans granted to:		
Companies related through key managing personnel	2,239	2,917
Subsidiaries	491	387
Companies under a common indirect control	336	445
Main shareholding companies	-	156
	3,066	**3,905**
Income from liquidation shares in:		
Subsidiaries	-	109
	-	**109**
Dividend income from:		
Subsidiaries	6,302	5,689
Companies under a common indirect control	3	46
Companies related through key managing personnel	-	154
	6,305	**5,889**
Total	**133,841**	**146,544**

The terms and conditions of these transactions do not deviate from the market ones for similar transactions. The accounts and balances with related parties are presented in *Notes 22, 25 and 36.* The members of the key personnel are disclosed in *Note 1.*

Salaries and other short-term benefits of key managing personnel amount to BGN 979 thousand (2013: BGN 1,174 thousand), including:

- current wages and salaries – BGN 844 thousand (2013: BGN 762 thousand);
- tantieme – BGN 135 thousand (2013: BGN 412 thousand).

45. EVENTS AFTER THE REPORTING PERIOD

Extraordinary General Meeting of Shareholders was held on 9 January 2015, which approved the contract for transformation through a take-over of Bulgarian Rose Sevtopolis AD by Sopharma AD and took a decision for increasing the share capital of Sopharma AD from BGN 132,000,000 to BGN 134,798,527 through the issue of 2,798,527 new shares with nominal value of BGN 1 each and issue value of BGN 4.14, equal to the fair value of one share of Sopharma AD, in relation with the take-over of Bulgarian Rose Sevtopolis AD. The entry in the Commercial Registry was done on 26 February 2015.

The exact amount of the increase in the share capital of Sopharma AD in relation with the take-over of Bulgarian Rose Sevtopolis AD was determined by a decision of the Board of Directors of 10 February 2015 as follows: increase from BGN 132,000,000 to BGN 134,797,899 through the issue of 2,797,899 new shares with nominal value of BGN 1 each. The monetary payments to the shareholders of the transferring company Bulgarian Rose Sevtopolis AD were set at the amount of BGN 2,597 in accordance with Art. 261b, para 2 of the Commercial Act.

In the period 26 January – 19 March 2015, the Company paid partially the share capital contributions for the newly established in 2014 subsidiary Sopharma Kazakhstan at the amount of BGN 258 thousand (EUR 132 thousand). The deadline for the final payment of the capital is 31 May 2015.

On 28 January 2015 a hearing was held before the court in Poland on a case filed by Sopharma AD for recognition and enforcement of a ruling by the Court of Arbitration in Paris (Note 41). The defendant under the case filed a refusal to accept and fulfil the arbitrary decision. The court in Poland ruled on 25 February 2015 that the arbitrary decision shall be executed. This court ruling has not come into force due to a pending appeal procedure against it.

On 17 March 2015 an out-of-court agreement was concluded between Sopharma AD (as a guarantor under a contract for supply and universal successor of Bulgarian Rose – Sevtopolis AD, which was wound-up because of its take-over by Sopharma AD) and the company – supplier of the transferring company, which arranges the relations under all disputes between the parties, including the related thereto interim cases (*Note 41*). On the same date (17 March 2015) in line with the agreement between the parties, Sopharma AD paid to the company – supplier of Bulgarian Rose – Sevtopolis AD the amount of BGN 1,246 thousand (USD 673 thousand and EUR 4 thousand), representing the amount outstanding after the mutual offsetting between the parties. On 19 March 2015 each of the parties withdrew its appeals against the court rulings under the cases and requested annulment of the imposed thereby securities and return of the guarantees given in relation with these securities (*Note 28*).

On 19 March 2015, a contract was concluded between Sopharma AD and PAO Vitamini based on which the trade receivables of Sopharma AD, amounting to EUR 12,774 thousand, were transformed to their equivalent in Hryvnia - UAH 316,532 thousand. This right of receivable, in accordance with a Decision of the Board of Directors of Sopharma AD, dated 20 March 2015, will be used as an additional contribution to the increase in the share capital of Sopharma Ukraine OOD. The capital increase process is expected to be finalised not later than 10 April 2015.

On 23 March 2015 the Board of Directors took a decision to start a procedure under the Public Offering of Securities Act (POSA) for making a tender offering in accordance with Art. 149, para 6 of POSA whereunder all shares of Momina Krepost AD held by other shareholders to be purchased by Sopharma AD. On 24 March 2015 an application for a tender offering was submitted to the Financial Supervision Commission, which has not yet taken up a position thereon.

MANAGEMENT REPORT

2014

SOPHARMA AD

27 March 2015

General information about Sopharma AD

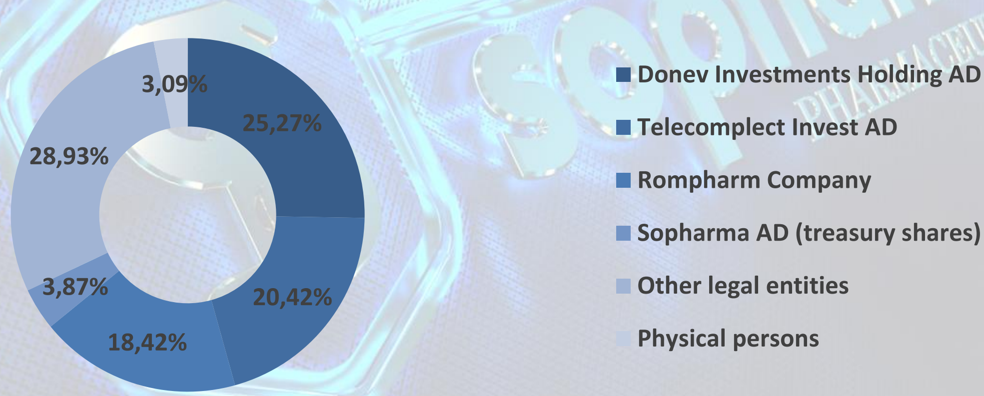
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shose street No 16.

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

The Company 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 AD provides services related to production,as well as to ancillary and service activities.

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

Shareholder structure as at 31 December 2014



Management Board

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

Company shares, owned by members of the Board of Directors of the Company as at 31 December 2014 are as follows:
Ognian Palaveev – 102,320 shares;
Alexandar Chaushev - 87 414 shares.
The Articles of association of Sopharma AD do not provision any restrictions on the right of the members of the Board of Directors to acquire shares or bonds of the Company.
Share in the capital of other companies amounting to more than 25% of the members of the Board of

Directors:
Ognian Ivanov Donev controls or owns directly a significant share (more than 25%) of the capital of the following companies:

1. "Donev Investments Holding" AD, UIC 831915121, with address of management in Sofia, 12 "Pozitano" Str. – control through direct ownership of more than 50% of the capital of the company;
2. "Telecomplect Invest" AD, UIC 201653294, with address of management in Sofia, 9 “Slaveikov” Square – significant influence through direct ownership of more than 20% of the capital of the company;
3. "Telecomplect" AD, UIC 831643753, with address of management in Sofia, 5 "Lachezar Stanchev" Str., Building A – significant influence through direct ownership of more than 20% of the capital of the company;
4. "Sopharma Buildings" REIT, UIC 175346309, with address of management in Sofia, 5 "Lachezar Stanchev" Str. – significant influence through direct and indirect ownership of more than 20% of the capital of the company;
5. “Sopharma Properties” REIT, UIC 175059266, with address of management in Sofia, 5 "Lachezar Stanchev" Str., Building A – significant share through direct and indirect ownership of more than 20% of the capital of the company;
6. "Sofprint Group" AD, UIC 175413277 with seat and address of management: Sofia, 12 "Pozitano" Str. – control through indirect ownership of more than 50% of the capital of the company;
7. "Sofconsult Group" AD, UIC 175413245, with seat and address of management: Sofia, 12 "Pozitano" Str. – control through indirect ownership of more than 50% of the capital of the company.
8. "Sofia Inform" AD, UIC 121303553, with address of management in Sofia, 12 "Pozitano" Str. – control through indirect ownership of more than 50% of the capital of the company.
9. "Elpharma" AD, UIC 130299513, with seat and address of management: Sofia, 16 „Iliensko shose“ Str. - significant influence through indirect ownership of more than 25% of the capital of the company;
10. “Sopharma Trading” AD, UIC 103267194, with seat and address of management: Sofia, 5 "Lachezar Stanchev" Str. – direct and indirect ownership of more than 20% of the capital of the company and participation in the management.
11. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – indirect ownership of more than 20% of the capital of the company in participation in the management.

Vessela Liubenova Stoeva controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "VES elekroinvest systems" EOOD, UIC 201712700, with seat and address of management: Sofia, 9 "P. R. Slaveykov" Square
2. "Eco Solar Invest" OOD, UIC 201634905, with seat and address of management: Sofia, 48 "Alabin" Str.

Alexandar Victorov Chaushev controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "Sofsarvis" OOD, UIC 131407109, with address of management in Sofia, 339, “Tsar Boris III” Blvd

Andrey Liudmilov Breshkov controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "Breshkov and Sons" OOD, UIC 115114555, with address of management in Plovdiv, 36 "Gladstone" Str.
2. "CFM" OOD, UIC 131304899, with address of management in Sofia, 2 "Nikolay Haitov" Str.

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

1. "Mill Stefanovo Village" EOOD, UIC 201045146, with address of management in Stefanovo Village, Lovech District.
2. "Sirius" OOD, UIC 110543305, with address of management in Stefanovo Village, Lovech District, 7 "Apriltsi" Str.

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

1. "Elpharma" AD, UIC 130299513, with seat and address of management: Sofia, 16 „Iliensko shose" Str. – member of the Board of Directors and Executive Director.
2. "Sopharma Trading" AD, UIC 103267194, with address of management in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
3. "Donev Investments Holding" AD, UIC 831915121, with address of management in Sofia, 12 "Pozitano" Str. – Chairman of the Supervisory Board.
4. "Unipharm" AD, UIC 831537465, with address of management in Sofia, 3 "Trajko Stanoev" Str. – Chairman of the Supervisory Board.
5. "Kaliman - RT" AD, UIC 121120513, with address of management in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
6. "Telecomplect" AD, UIC 831643753, with address management in Sofia, 5 "Lachezar Stanchev" Str., Building A – Chairman of the Supervisory Board.
7. "Doverie United Holding" AD, UIC 121575489, with address of management in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board, Vice-President.
8. "Doverie Capital" AD, UIC 130362127, with address of management in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board.
9. "Medica" AD, UIC 000000993, with address of management in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Board of Directors.
10. "Riton P" AD, UIC 822106398, with address of management in Panagyurishte, 30 "Krastio Geshanov" Str. – Member of the Board of Directors.
11. "Momina Krepost" AD, UIK 104055543, with address of management in Veliko Tarnovo, 23 "Magistralna" Str. – Member of the Board of Directors.
12. "Alumni Association of International Economic Relations", UIC 175861145 – Chairman of the Management Board.
13. Sopharma AD, UIC 831902088, with seat and address of management: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors and Executive Director.

Vessela Liubenova Stoeva participates in the management/supervisory body for the following companies:

1. "Elpharma" AD, UIC 130299513, with seat and address of management: Sofia, 16 „Iliensko shose" Str. - member of the Board of Directors;
2. "VLS" AD, UIC 175082980, with address of management in Sofia, Slaveikov Square 9 - member of the Board of Directors;

3. "VES elekroinvest systems" EOOD, UIC 201712700, with seat and address of management: Sofia, 9 "P. R. Slaveykov" Square - Manager.
4. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – Deputy Chairperson of the Board of Directors.

Alexandar Victorov Chaushev participates in the management/supervisory body of the following companies:

1. "Monbat" AD, UIC 111028849, with registered office in Sofia, Lozenets area, 4 “Golo Bardo” Str. – member of the Board of Directors;
2. "DK-Domostroene" AD, UIC 102148397, with registered office in Burgas, PO Box 8000, Pobeda area – member of the Board of Directors;
3. "Agency management and advertising in sport 'EAD, UIC 130969084, with registered office in Sofia, Vazrazhdane," Todor Alexandrov "№ 42 – Member of the Board of Directors.
4. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – member of the Board of Directors.

Andrey Liudmilov Breshkov participate in the management/supervisory body for the following companies:

1. "Simol" EAD, UIC 101795403, with address of management in Blagoevgrad, 3 "Georgy Izmirliev" Square – Chairman of the Board of Directors
2. "Vizaton" OOD, UIC 202235166, with seat and address of management: Sofia, Sredets, 225A "Tsar Boris III" Blvd – Chairman of the Board;
3. ZAD "Energy", UIC 831040933, with seat and address of management: Sofia, 33 "Knyaz Dondukov" Blvd - member of the Board of Directors.
4. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – member of the Board of Directors.
5. Expat Beta REIT

Ognyan Kirilov Palaveev participates in the management/supervisory body of the following companies:

1. "Sirius" OOD, UIC 110543305, with address of management in Stefanovo Village, Lovech District, 7 "Apriltsi" Str. – member of the Management Board;
2. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – member of the Board of Directors.
3. Unipharm AD, UIC 831537465, with address of management in Sofia, Darvenitsa district, 3 Traiko Stanoev Str. – member of the Board of Directors.
4. Melnitsa S.Stefanovo

There were no contracts under Art. 240b of CA in 2014.

Investor Relations Director is Pelagia Viatcheva, tel. 8134 523, Sofia, 5 "Lachezar Stanchev" Str., Building A, Floor 11.

Industrial activity

Sopharma AD has ten manufacturing facilities, which are compliant with EU regulations and are located in Bulgaria. The Company is the largest Bulgarian producer of ampoules and suppositories.

The Company carries out and develops production in the following areas:

- Substances and preparations based on vegetable raw materials (phytochemical production);

- Finished dosage forms including
    - ✓ Solid tablets, coated tablets, coated tablets, capsules;
    - ✓ Galenical - suppositories, drops, syrups, unguents;
    - ✓ Parenteral - injectables, powders for injections lyophilic

The Company has more than 210 products in its portfolio: mainly generics and 15 original products, 12 products are phyto-based. The original products of the Company (and in particular Carsil and Tempalgin) are key contributors to its revenues from export markets, while for the domestic sales the most important products are generics, among which the leading medicine is Analgin.

The product portfolio of Sopharma AD 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 gynaecology.

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

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

Intellectual property

Although oriented towards generic pharmaceuticals, Sopharma AD is known for many years with its traditional production of several unique products based on plant extracts obtained by inhouse-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 AD relies on brand names, all of which are registered trademarks of the Company.

In all the years of its existence, Sopharma AD generates and protects its intellectual property. As a result, the Company 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 Company towards product and technological improvement, and innovation in particular.

Research and development

Sopharma AD 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 AD in the future is to achieve a stable result in developing eight to ten new products annually.

The Company 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.

Employees

As at 31 December 2014 the average number of employees of Sopharma AD is 1,825 (2013: 1,793). The table below shows the detailed information on the staff of the Company.

	31.12.2014	**Share %**
Number of employees 31.12.2014	1829	100%
Higher education	850	47%
Special education	49	3%
High school education	910	50%
Primary school education	20	1%
Up to 30 years of age	233	13%
Between 31 - 40 years of age	432	24%
Between 41 - 50 years of age	564	31%
Between 51 - 60 years of age	497	27%
Over 60 years of age	103	5%
Women	1145	63%
Men	684	37%

Training programs offered to employees of the Company, aim at increasing their competence levels. The training policy is specifically aimed at providing high professional knowledge and improving awareness related to health and safety issues.

Employees are entitled to higher remuneration, required by applicable law for overtime, night shifts and working weekends and during holidays. Employees who work in specific, harmful or dangerous conditions receive personal protective equipment and allowances.

Major trading counterparts

The main clients of the Company with relative share in sales revenue exceeding 10% for 2014 are Delta Sales Corporation Limited with a relative share of 33%, Sopharma Trading AD – 32% and OAO Vitamini – 12%.

- Delta Sales Corporation Limited with a seat in Sofia, 20-22 “Zlaten Rog” Str. and principal activities: foreign trade of medicines. The relations are regulated through a contract for sale.
- Sopharma Trading AD with a seat in Sofia, Nadezhda Region, 16 “Rozhen” Str., with principal activities: wholesale and retail trading of medicines and sanitary and hygiene products.

Sopharma Trading AD is a subsidiary of Sopharma AD performing the functions of a "pre-wholesaler" in the process of its finished products realization;

- OAO Vitamini is a trading company, registered in Ukraine, with a seat and address of management: Ukraine, Cherkas Area, Uman, 31 “Leninski Iskri” Str., with principal activities: production of pharmaceutical products and medicines, wholesale and retail trade of pharmaceutical products, other types of wholesale trade and intermediary services in consumer goods trading. OAO Vitamini is a subsidiary of Sopharma AD.

Suppliers with a relative share exceeding 10% of the supplied services and materials for 2014:

- “Bulgarian Rose Sevtopolis” AD with a relative share of 12% and with a seat and address of management in Kazanluk, 110 “23 Pehoten shipchenski polk” Blvd is a subsidiary of Sopharma AD (in 2014).

Information regarding the execution of the Program for the Implementation of the Internationally Recognized Good Corporate Governance Standards

The Board of Directors of Sopharma AD complies with and implements the Code of Corporate Governance. The Company periodically discloses information about corporate governance in accordance with the "comply or explain" principle. In the event of non-compliance with the recommendations of the Code the Company provides an explanation.

The actions of the Management of Sopharma AD are directed towards affirming the principles for good corporate governance, increasing the trust of shareholders, investors and persons interested in the management and business of the Company.

The Board of Directors of Sopharma AD adheres to the Good Corporate Governance Program, which is in line with the effective legal regulation, the internationally recognized good corporate governance standards and the Bulgarian National Code for Corporate Governance.

The Board of Directors approves disclosure policies in accordance with the legal requirements and organizational acts. The system for information disclosure guarantees equality of the addressees (shareholders, stakeholders, investors) and prevents misuse of inside information.

The corporate governance guarantees that the system for information disclosure provides complete, timely, accurate and understandable information that allows objective and informed decisions and evaluations.

The Board of Directors of Sopharma AD prepared a Remuneration policy for the members of the Board of Directors, approved by the Annual General Meeting of Shareholders on 21 June 2013. The Remuneration policy has been prepared in accordance with Ordinance №48 from 20 March 2013 of the Financial Supervision Commission and with the Public Offering of Securities Act. The size and structure of the remuneration are approved by the AGM of the Company.

The Board of Directors of Sopharma prepared a Report on the implementation of the remuneration policy of the Board of Directors for 2014. The report reveals the way the Remuneration policy is applied, paying particular attention to the prevention of incentives for taking excessive risk, conflict of interest or other behavior, resulting in adverse effects.

The Company maintains an English version of the corporate website with identical content.

The processes and procedures for conducting of General Meetings of Shareholders guarantee equal treatment of all shareholders – including minority and foreign ones, and protect their interests.

The materials related with the General Meeting of Shareholders are at the disposal of the shareholders as from the day of the invitation announcement in the Commercial Register, on the website of the Company: www.sopharma.bg, and upon request, are provided at no cost to the shareholders.

Shareholders with a voting right can exercise their voting right at the General Meeting personally or through a representative, as well as through correspondence or electronically.

The corporate management takes actions to promote participation of the shareholders in the Annual General Meeting of Shareholders, incl. by providing options for distant attendance through technical means (incl. Internet) in the cases, when this is possible and necessary and does not unnecessarily raise the cost of voting.

The Board of Directors believes that prerequisites have been established for sufficient transparency in the relations with investors, financial media and capital market analysts.

Significant events in 2014

On 14 January 2014 Sopharma AD made a final payment for the capital increase of Briz, which would allow it to expand its presence in the markets of the three Baltic States and Belarus. The share held by Sopharma AD in the capital of the company after the increase reached 66.13% (previously 53.14%). The expansion of the presence on the market of the Republic of Belarus includes acquisition of a warehouse complex, implementation of an integrated information system, as well as acquisition of new pharmacies.

On 6 February 2014 Sopharma AD sold 616 015 ordinary registered shares with voting rights of the capital of Sopharma Trading AD. After this transaction, the share of Sopharma AD in the capital of Sopharma Trading AD decreased with 1.87%.

On 7 February 2014 Sopharma AD received a notification for participation disclosure under art. 145 from POSA from Rompharm Company OOD for the acquisition of 4 230 000 shares, representing 3.20 % of its capital, through which transaction the share of Rompharm Company OOD in the capital of Sopharma AD reached 17.60%.

On 11 February 2014 Sopharma AD received a notification for participation disclosure under art. 145 from POSA from UPF Doverie for the selling of 3 424 005 shares. After the transaction the share of UPF Doverie in the capital of Sopharma AD decreased with 2.59%. The registration date of the transaction in the Central Depository AD, Sofia is 6 February 2014.

On 19 June 2014 Sopharma AD and Bulgarian Rose – Sevtopolis AD signed a Contract for transformation through merger in accordance with the requirements of art. 262d and following of the Commercial Act (CA), as a result of which all assets of Bulgarian Rose – Sevtopolis AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Bulgarian

Rose – Sevtopolis shall be terminated without liquidation. According to the signed contract, in connection with the implementation of the merger shall be carried out a capital increase of the receiving company Sopharma AD through issuing of new shares to be distributed among the shareholders of the transferring company Bulgarian Rose - Sevtopolis AD (except the shareholder Sopharma AD).

On the regular General Meeting of Shareholders of Sopharma AD, conducted on 20 June 2014 in Sofia, 5 Lachezar Stanchev Str., were taken the following decisions:

- Approval of the proposal by the Board of Directors for the distribution of the profit generated in 2013 and the undistributed profit from past periods as follows: net profit for 2013 amounts to 33 660 187.31 BGN /thirty-three million, six hundred and sixty thousand, one hundred and eighty-seven leva and thirty-one stotinki/. The undistributed profit from past periods amounts to 1 383 460.18 /one million, three hundred and eighty-three thousand, four hundred and sixty leva and eighteen stotinki/. The total amount of the profit, subject to distribution, is 35 043 647.49 /thirty-five million, forty-three thousand, six hundred and forty-seven leva and forty-nine stotinki/. After the allocation of 10% to the statutory reserve, amounting to 3 504 364.75 BGN /three million, five hundred and four thousand, three hundred and sixty-four leva and seventy-five stotinki/, from the remaining sum, amounting to 31 539 282.74 BGN /thirty-one million, five hundred and thirty-nine thousand, two hundred and eighty-two leva and seventy-four stotinki/ shall be paid a gross dividend of 0.07 BGN /seven stotinki/ per share with dividend right.
- Election of AFA OOD with address of management in Sofia, 38 Oborishte Str. as a registered auditor for auditing and verification of the Annual financial statements of the Company for 2014, according to a proposal by the Audit Committee.

- Approval of decision for continuation of the mandate of the Audit Committee of the Company for a term of 3 /three/ years as of the date of the AGM.

On 11 September 2014 Sopharma AD commenced the payment of dividends for 2013 in accordance with a list of the entitled persons as at 4 July 2014, prepared by the Central Depository AD. The gross dividend, voted on the General Meeting of Shareholders, is 0.07 BGN /seven stotinki/ per share. The net amount of the dividend per share (only for shareholders - physical persons) is 0.0665 BGN.

On 4 November 2014 Sopharma AD bought 400,010 shares of the capital of Medika AD, through which transaction the share of Sopharma AD in the capital of Medika AD reached 23.20%.

On 7 November 2014 the Financial Supervision Commission approved the Contract for transformation through merger in accordance with the requirements of art. 262d and following of the Commercial Act (CA). As a result the assets of Bulgarian Rose – Sevtopolis AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Bulgarian Rose – Sevtopolis AD will be terminated without liquidation. According to the signed contract, in connection with the implementation of the merger the capital of the acquiring company Sopharma AD shall be increased from 132,000,000 BGN to up to 134,798,527 ordinary registered shares. As a result of the merger, all shareholders of the Acquiree Bulgarian Rose – Sevtopolis AD, with the exception of the Acquirer Sopharma AD, which is also a shareholder of the Acquiree, will receive shares of Sopharma AD and become shareholders of it. Against one share of Bulgarian Rose – Sevtopolis AD each shareholder pursuant to art. 261b, art. 1 of the CA shall receive 0.463768 shares of the capital of Sopharma AD.

On 19 December 2014 was held an Extraordinary General Meeting of Shareholders of Sopharma AD, which took the following decisions:

- due to lack of the necessary majority, required by the Articles of association and the law, the decisions under item 1 to 7 of the agenda, concerning the transformation of Sopharma AD through the merger of Bulgarian Rose – Sevtopolis AD, with seat in Kazanluk, UID 123007916, were not approved;
- approval of a Substantiated report on the terms and appropriateness of transactions under art. 114, par. 1 of the Public Offering of Securities Act (POSA), in which Sopharma AD is a party;
- authorization of the Board of Directors for executing a transaction, which falls within the scope of art. 114, par. 1 of the POSA – a contract, by the force of which Sopharma AD shall issue a corporate guarantee for the securing of a claim of DSK Bank EAD under credit contract with borrower Sopharma Properties REIT;
- authorization of the Board of Directors for executing a transaction, which falls within the scope of art. 114, par. 1 of the POSA – a contract, by the force of which Sopharma AD shall rent a property, owned by Sopharma Properties REIT;
- authorization of the Board of Directors for executing a transaction, which falls within the scope of art. 114, par. 1 of the POSA – a contract, by the force of which Sopharma AD shall become a co-debtor and will establish a pledge on assets, owned by it, for the securing of the claims of Raiffeisen Bank Bulgaria EAD, resulting from a credit contract with the borrower Sopharma Trading AD.

No major contracts or contracts with a substantial influence on the business of the Company have been concluded during the reporting period.

Transactions between the Company and related parties during the reporting period are presented in the "Related Party Transactions" annex to the annual financial statements. The

Company has no transactions outside the ordinary course of its business, and ones which deviate from the market conditions.

During the reporting period there are no unusual events or indicators for the Company.

Information regarding transactions, not listed in the balance sheet is presented in the “Contingencies and commitments” annex to the annual financial statements.

Important events after the date of the preparation of the financial statement

On 9 January 2015 was held an Extraordinary General Meeting of Shareholders of Sopharma AD, which approved a decision for transformation of Sopharma AD through the merger of Bulgarian Rose – Sevtopolis AD into Sopharma AD, as well as for the capital increase of Sopharma AD from 132 000 000 BGN to 134 798 527 BGN through the issuance of 2 798 527 new shares with a nominal value of 1 BGN and an emission value of 4.14 BGN, equal to the fair value of one share of Sopharma AD in relation to the merger of Bulgarian Rose – Sevtopolis AD. The entry in the Commercial Register was conducted on 26 February 2015. As at 6 March 2015 the new capital of 134 797 899 BGN was registered in the Central Depository AD. The entry in the register of the Financial Supervision Commission and trading on the Bulgarian Stock Exchange are pending.

The installments on the share capital of the newly founded in 2014 subsidiary Sopharma Kazakhstan at the amount of 258 thousand BGN (132 thousand EUR) were partially paid in the period 26 January – 19 March 2015. The deadline for the final payment of the capital is 31 May 2015.

On 28 January 2015 was held a hearing before the court in Poland in a lawsuit, filed by Sopharma AD, for recognition and enforcement of a decision of the Arbitration Court in Paris. The defendant in the case has submitted a refusal to recognize and comply with the decision. By decision from 25 February 2015 the court in Poland has ruled that the arbitration decision is subject to enforcement. This court ruling has not entered into force because of an appeal procedure.

On 17 March 2015 was concluded an extrajudicial agreement between Sopharma AD (as guarantor under a supply contract and universal successor of Bulgarian Rose – Sevtopolis AD, terminated due to its merger into Sopharma AD) and a company supplier of the merged subsidiary. The agreement settles all disputes between the parties, including the related collateral court cases. On the same date (17 March 2015), according to the agreements between the parties, Sopharma AD has paid the company supplier of Bulgarian Rose – Sevtopolis AD the amount of 1,246 thousand BGN (673 thousand USD and 4 thousand EUR), representing the residue after a netting made between the parties. On 19 March 2015, each of the parties withdrew their appeals against court decisions on the cases and requested revocation of the collaterals imposed on them as well as repayment of guarantees given in connection with the collaterals.

On 19 March 2015, a contract was concluded between Sopharma AD and PAO Vitamini based on which the trade receivables of Sopharma AD, amounting to EUR 12,774 thousand, were transformed to their equivalent in Hryvnia - UAH 316,532 thousand. This right of receivable, in accordance with a Decision of the Board of Directors of Sopharma AD, dated 20 March 2015, will be used as an additional contribution to the increase in the share capital of Sopharma Ukraine OOD. The capital increase process is expected to be finalised not later than 10 April 2015.

On 23 March 2015 the Board of Directors of Sopharma AD took a decision for the conducting of the procedure, required by POSA, for a tender offer under Art. 149, para. 6 of POSA for the purchasing all shares of the other shareholders Momina Krepost AD, Veliko Tarnovo, UIC 104055543 by the majority shareholder Sopharma AD. The application for the tender offer was submitted to the Financial Supervision Commission on 24 March 2015. The Financial Supervision Commission has not yet taken a decision on the current draft tender offer.

New developments and products

- New products with marketing authorizations in 2014:

Authorizations were received for the bringing to market of 6 new products for the Company – Otofix drops, Softenzif tablets with delayed release, Promerol injection solution, Fentoril injection solution, Ivadron injection solution, Tuspan syrup 100 ml., and one new product Glicerax suppository was brought to market.

- Expected in 2015

Three to five new products are expected to be introduced by the end of 2015.

- Developments

Around twenty-four production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 17 new products for the Company.

Planned development

- Sopharma AD will continue its development as a company producing high quality medicines that comply with international standards.
- Through upgrading scales, aggressive marketing policy and competitive prices, the Company aims at expanding the market share of its products on the national market.
- With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Company on the main markets (Russia, Ukraine and Poland) as well as establishing and extending of its market position in other countries (USA, Central and East European countries, and the Caucasian region).
- Continuing the policy of active partnership with recognized international pharmaceutical

companies, with new companies as well as broadening the product range of already established collaborations.

Key financial indicators

Indicators	1-12/2014 *BGN '000*	1-12/2013 *BGN '000*	change %
Sales revenues	201 456	216 054	-6,8%
EBITDA	39 698	57 149	-30,5%
Operating profit	23 832	45 433	-47,5%
Net profit	26 531	33 540	-20,9%
CAPEX	10 819	24 785	-56,3%

	31.12.2014 *BGN '000*	31.12.2013 *BGN '000*	
Non-current assets	365 216	358 109	2,0%
Current assets	190 779	192 193	-0,7%
Owners' equity	389 706	370 735	5,1%
Non-current liabilities	47 571	58 104	-18,1%
Current liabilities	118 718	121 463	-2,3%

Ratios	1-12/2014	1-12/2013	Change
EBITDA / Sales revenues	19,7%	26,5%	-6,8%
Operating profit/ Sales revenues	11,8%	21,0%	-9,2%
Net profit/ Sales revenues	13,2%	15,5%	-2,3%
Borrowed capital/Owners' equity	0,43	0,48	-0,05
Net debt/ EBITDA	3,36x	2,51x	0,85x

Review of risk factors

Risks relating to the Company's business and the industry the Company operates in

- The Company faces significant competition.
- Reputation of the Company 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 Company.
- The Company is dependent on regulatory approvals.
- Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- Part of the Company's revenues, in particular in Bulgaria, depend on the inclusion of the Company's medicines on reimbursement lists.

- The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company's operations.
- The Company's ability to pay dividends depends on a number of factors and there can be no assurance that the Company will be able to pay dividends in accordance with its dividend policy or at all in any given year.
- The Company is subject to operational risk which is inherent to its business activities.
- The Company 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 Company'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 Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The remaining part of Company operations are usually denominated in BGN and/or EUR. The Company 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 company conduduts 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 Company has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

Credit risk

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

In the years of its trade experience, the Company has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the National Health Insurance Fund and the state hospitals also require the implementation of deferred payments policy. In this sense, regardless of credit risk concentration, it is controlled through the choice of trade counterparts, current monitoring of their liquidity and financial stability as well as direct communication with them and search of prompt measures on first indications for existing problems.

Liquidity risk

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally its obligations within their maturity.

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Risk of interest-bearing cash flows

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

a) optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and

b) 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 favourable for the Company. 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 unfavourable change of cash flows is reduced to a minimum.

The Company's management currently monitors and analyses its exposure to changes in interest rates. 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 about the main characteristics of the internal control system applied by the Company in the process of financial statements preparation

According to the Bulgarian legislation, the management is required to prepare a report on the activities as well as financial statements for each financial year, which should give a true and fair view of the Company's financial position and performance as at end of the period, and for the cash flows in accordance with the applicable accounting framework. The responsibility of the Management also includes the application of internal control system for preventing, revealing and elimination of errors and misstatement resultant from the operation of the accounting system. In this respect, the Management observes the following main principles in its activities:

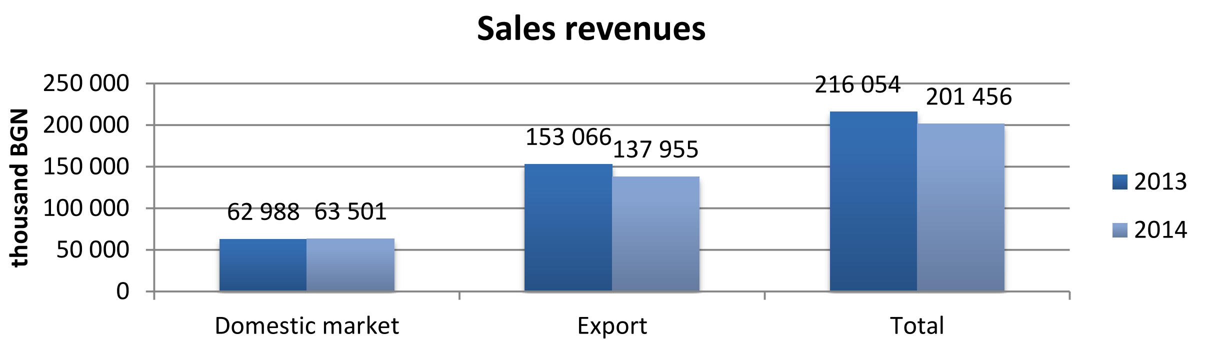
- adherence to a specific management and accounting policy disclosed in the financial statements;
- execution of all operations in accordance with the legal and regulatory provisions;
- reflection of all events and operations in a timely manner, at their accurate amount in the appropriate accounts and for the corresponding reporting period so as to allow the preparation of financial statements in line with the relevant accounting framework;
- adherence to the principle of prudence in the valuation of assets, liabilities, income and expenses;
- identification and elimination of fraud and errors;
- completeness and accuracy of accounting information;
- preparation of reliable financial information; compliance with international financial reporting standards and adherence to the to the going concern principle.

No changes occurred in the main principles of governance of Sopharma AD and its economic group during the reporting period.

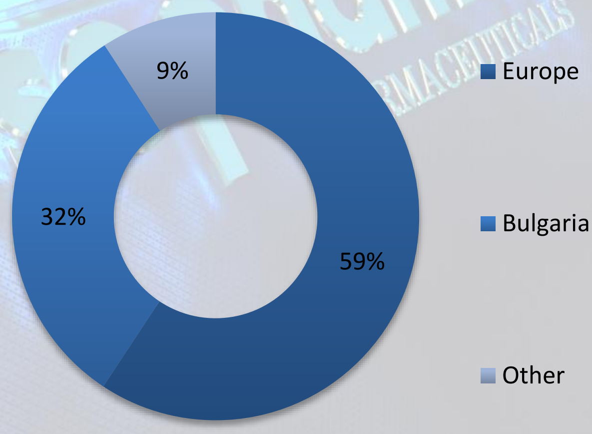
Operating results in 2014

Sales revenues

Sales revenues of production decrease by 14,6 million BGN or 6.8%, reaching 201,5 million BGN as at the end of 2014, compared to 216,1 million BGN at the end of 2013.



Revenues by market	2014 BGN '000	2013 BGN '000	Change %
Europe	119 464	130 332	-8%
Bulgaria	63 501	62 988	1%
Other	18 491	22 734	-19%
Total	**201 456**	**216 054**	-7%



- Europe

Revenues from sales to European countries decreased by 8% compared to 2013 due to the decrease of sales in Ukraine by 37%. Currently the access to the eastern territories is permanently restricted and sales there are difficult to conduct by the distributors and are in much smaller quantities. The revenue from sales in Russia increased, where five new products are in the process of registration. Sales to Poland, Serbia, Turkey, Malta and Belarus have increased.

- Bulgaria

The sales of Sopharma AD on the domestic market increased by 0,5 million BGN, or 1% and reached 63,5 million BGN at the end of 2014 compared to 63 million BGN at the end of 2013. The products with largest share of sales in the country are Analgin, Vicetin, Flixotid, Vitamin C, and Methylprednisolone. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 12% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis –

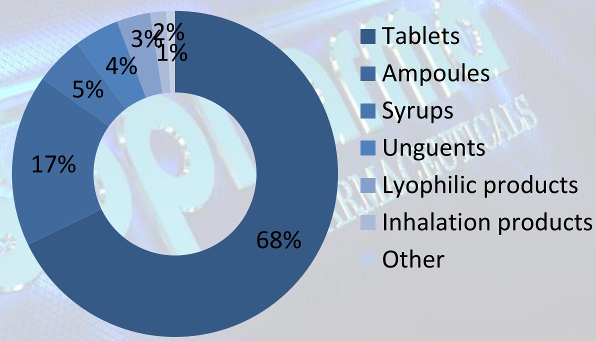
6.6% (4.3% in units), Roche – 6% (0.4% in units), GlaxoSmithKline – 5.6% (2.5% in units), Actavis – 5,4% (14% in units), Sanofi-Aventis-Zentiva – 4.1% (3.2% in units), Astra Zeneca – 3.6% (1% in units), Pfizer – 3.3% (1.3% in units), Servier – 3% (1.7% in units), Bayer – 2.9% (1.7% in units).

- Other markets

Revenues from other markets decreased by 19% in 2014. These mainly include revenues from sales in the Caucasus and Central Asia, which decreased by 30% compared to 2013. This decrease was due to the economic and financial crisis in Kazakhstan early the year when the local currency devalued by 21% in one day and practically froze the economy for more than two months. Currently, the situation in the country stabilizes slowly and Sopharma recovers its business operations and positions. Sales revenue in Vietnam, Mongolia, and Tunisia increased.

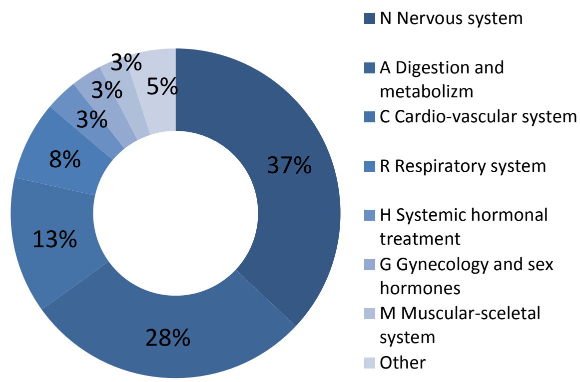
Sales by type of formulation

Revenues by type of formulation	2014 *BGN '000*	2013 *BGN '000*	Change %
Tablets	136 700	147 808	-8%
Ampoules	34 405	34 685	-1%
Syrups	9 682	13 143	-26%
Unguents	9 029	7 559	19%
Lyophilic products	6 700	6 371	5%
Inhalation products	3 155	3 454	-9%
Other	1 785	3 034	-41%
Total	**201 456**	**216 054**	-7%



Sales by therapeutic group

Revenues by therapeutic group	2014 *BGN '000*	2013 *BGN '000*	Change %
N Nervous system	74 538	70 737	5%
A Digestion and metabolism	56 552	69 439	-19%
C Cardio-vascular system	27 014	21 744	24%
R Respiratory system	15 585	20 848	-25%
H Systemic hormonal treatment	6 366	6 484	-2%
G Gynaecology and sex hormones	6 063	9 381	-35%
M Muscular-skeletal system	5 365	5 547	-3%
Other	9 973	11 874	-16%
Total	**201 456**	**216 054**	-7%



Other operating revenues

Other operating revenues	2014 *BGN '000*	2013 *BGN '000*	Change %	Share 2014 %
Income from services	3 576	2 814	27%	89%
Income from sale of products	605	674	-10%	15%
Income from sale of materials	168	172	-2%	4%
Net loss from exchange rate differences	(305)	(538)	-43%	-8%
Other	(31)	(43)	-28%	-1%
Total	**4 013**	**3 079**	30%	100%

Other operating income increased by 0,9 million BGN from 3,1 million BGN in 2013 to 4 million BGN in 2014. The main contributor is income from services, which grew by 0,8 million BGN compared to the previous year.

Operating expenses

Operating expenses	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Changes in the finished goods and work-in-progress inventory	(10 296)	7 006	247%	-6%
Materials	60 600	54 932	10%	33%
External services	71 347	59 659	20%	39%
Personnel	34 403	32 328	6%	19%
Amortization	15 866	11 716	35%	9%
Other operating expenses	9 717	8 059	21%	5%
Total	**181 637**	**173 700**	5%	100%

The operating expenses increased by 7,9 million BGN or 5% compared to 2013, reaching 181,6 million BGN, which is due to an increase in material costs, hired services expenese, personnel, and amortization costs.

Materials expenses	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Main materials	44 417	40 118	11%	73%
Spare parts, laboratory items and technical materials	5 709	5 290	8%	9%
Electricity	3 615	3 496	3%	6%
Heat	3 395	3 235	5%	6%
Fuels and lubricants	1 007	1 254	-20%	2%
Impairment of materials	737	203	263%	1%
Work cloths	692	593	17%	1%
Water	665	733	-9%	1%
Scraping of materials	363	10		1%
Total	**60 600**	**54 932**	10%	100%

Cost of materials (33% share) increased by 5,7 million BGN or 10% from 54,9 million BGN in 2013 to 60,6 million BGN in 2014. Costs of basic materials increased by 4,3 million BGN, in the segments of packaging materials, liquid, and hard chemicals, substances, and ampules. There was an increase in the cost of spare parts, laboratory and technical materials, heat, electricity, and impairment of materials.

Hired services expenses	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Manufacturing of medicines	27 571	25 337	9%	39%
Consultancy fees	12 140	9 522	27%	17%
Advertising	9 275	7 559	23%	13%
Logistics services on export and domestic market	3 258	1 907	71%	5%
Transportation	3 100	2 264	37%	4%
Maintenance of buildings and equipment	2 800	1 433	95%	4%
Rents	2 411	2 454	-2%	3%
Registration services and clinical trials	1 581	852	86%	2%
Local taxes and fees	1 106	667	66%	2%
Security	867	904	-4%	1%
Civil contracts	806	775	4%	1%
State and regulatory taxes and local taxes	774	809	-4%	1%
Subscription fees	749	721	4%	1%
Medical services	744	659	13%	1%
Insurance	617	475	30%	1%
Expense taxes	548	534	3%	1%
Other	3 000	2 787	8%	4%
Other	**71 347**	**59 659**	20%	100%

Hired services have a 39% share of operating expenses and increased by 11,6 million BGN or 20%, reaching 71,3 million BGN in 2014 compared to 59,7 million BGN in 2013. The most significant impact have the increase in consultancy services by 2,6 million BGN, manufacturing cost by 2,2 million BGN, advertising cost by 1,7 million BGN, maintenance of buildings and equipment by 1,4 million BGN, logistic services by 1,4 million BGN. There is a decrease in state and regulatory taxes, servicing fees of current bank accounts and other expenses.

Personnel expenses	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Salaries	25 931	23 925	8%	75%
Social insurance	4 858	4 267	14%	14%
Social benefits and payments	1 952	2 179	-10%	6%
Performance-based bonuses	801	1 105	-28%	2%
Other	861	852	1%	3%
Total	**34 403**	**32 328**	6%	100%

Personnel costs (with a share of 19% of operating expenses) increased by 2,1 million BGN, or 6% from 32,3 million BGN in 2013 to 34,4 million BGN in 2014. Current salaries increased by 2 million BGN, social security contributions - by 0,6 million BGN, and social benefits and current accruals decreased by 0,2 million BGN, as well as performance-based bonuses by 0,3 million BGN.

Other expenses	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Accrued impairment of receivables, net	2 651	1 646	61%	27%
Entertainment expenses	2 363	2 560	-8%	24%
Accrued impairment of finished good and unfinished products	2 266	933	143%	23%
Business trips	804	696	16%	8%
Scrapping and loss of long-term assets	378	128	195%	4%
Donations	191	311	-39%	2%
Scrapping of finished good and unfinished products	183	437	-58%	2%
Written-off receivables	158	155	2%	2%
Other (see FS notes)	723	1 193	-39%	7%
Total	**9 717**	**8 059**	21%	100%

Other operating expenses (with a relative share of 5% of operating expenses) increased by 1,6 million or 21% from 8,1 million BGN in 2013 to 9,7 million BGN in 2014, which is mostly due to an increase in accrued impairment of receivables, net by 1 million BGN and accrued impairment of finished goods and unfinished products by 1,3 million BGN. There is a decrese in other taxes and payments to the budget by 0,7 million BGN, included on line “Other”.

Costs of amortization (with a relative share of 9% of operating expenses) increased by 4,2 million BGN of 35% from 11,7 million BGN in 2013 to 15,9 million BGN in 2014.

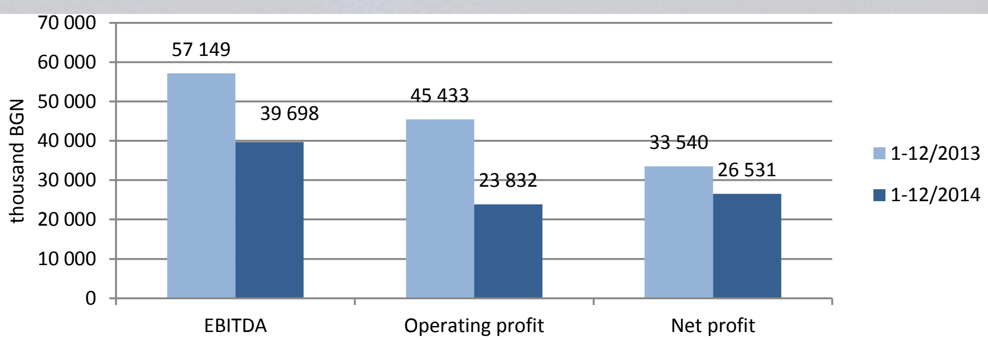
Financial income and expenses

Financial income	2014	2013	Change	Share 2014
	BGN '000	*BGN '000*	%	%
Income from participations	6 361	5 889	8.0%	49%
Net gain from operations with securities	3 509	-	-	27%
Income from interest on loans granted	3 127	3 989	-21.6%	24%
Income from liquidation shares in subsidiareis	-	109	-100.0%	0%
Total	**12 997**	**9 987**	30%	100%
Financial expenses				
Impairment of available-for-sale investments	4 326	5 676	-24%	33%
Expenses for interest on loans received	240	289	-17%	2%
Net loss on from operations with securities	88	6 746	-99%	39%
Bank fees for loans and guarantees	18	49	-63%	0%
Net loss from exchange rate differences on loans	-	4 510	-100%	26%
Financial leasing expenses	-	68	-100%	0%
Total	**4 672**	**17 338**	-73%	100%

Financial income increased by 3 million BGN, or 30%, to 13 million BGN in 2014 compared to 10 million BGN in 2013. This is a result of an increase in net gain from operations with securities by 3,5 million BGN. Income from interest on loans granted decreased by 0,9 million BGN.

Financial expenses decreased by 12,6 million BGN or 73% to 4,7 million BGN in 2014 compared to 17,3 million BGN in 2013. This decrease is mainly due to the change in net loss from operations with securities by 4,5 million BGN and impairment of available-for-sale investments by 6,7 million BGN.
Net financial income (expense) increased by 15,7 million BGN, reaching 8,3 million BGN in 2014, compared to (7,4) million BGN in 2013.

Financial result



Profit before interest, taxes, depreciation and amortization (EBITDA) decreased by 17,4 million BGN or

31%, amounting to 39,7 million BGN as at 31 December 2014, compared to 57,1 million BGN as at 31 December 2013.

The operating profit decreased by 21,6 million BGN or 48%, reaching 23,8 million BGN as at 31 December 2014, compared to 45,4 million BGN as at 31 December 2013.

Net income decreased by 7 million BGN or 21% to 26,5 million BGN as at 31 December 2014 compared to 33,5 million BGN as at 31 December 2013.

Assets

Non-current assets	31.12.2014 BGN '000	31.12.2013 BGN '000	Change %	Share 2014 %
Property, plant and equipment	192 728	198 158	-3%	53%
Intangible assets	2 442	3 661	-33%	1%
Investment property	22 368	22 555	-1%	6%
Investments in subsidiaries	103 068	101 207	2%	28%
Investments in associated companies	7 015	-	-	2%
Available-for-sale investments	4 439	6 862	-35%	1%
Long-term receivables from related parties	33 150	25 649	29%	9%
Other long-term receivables	6	17	-65%	0%
	365 216	***358 109***	2%	66%
Current assets				
Inventories	54 047	51 249	5%	28%
Receivables from related parties	99 505	103 350	-4%	52%
Commercial receivables	23 268	22 155	5%	12%
Other receivables and prepaid expenses	11 024	7 241	52%	6%
Cash and cash equivalents	2 935	8 198	-64%	2%
	190 779	***192 193***	-1%	34%
TOTAL ASSETS	***555 995***	***550 302***	1%	100%

Total assets increased by 5,7 million BGN or 1%, reaching 556 million BGN compared to 550,3 million BGN as at 31 December 2013.

Non-current assets increased by 7,1 million BGN, or 2%, mainly due to the net effect of: an increase in long-term receivables from related parties by 7,5 million BGN, an increase in investments in associated companies by 7 million BGN and a decrease in property, plant and equipment by 5,4 million BGN and intangible assets by 1,2 million BGN compared to 31 December 2013.

Property, plant and equipment	31.12.2014 BGN '000	31.12.2013 BGN '000	Change %	Share 2014 %
Land and buildings	103 457	106 621	-3%	54%
Machines and equipment	75 065	80 237	-6%	39%
Other	7 047	10 317	-32%	4%
In process of acquisition	7 159	983	628%	4%
Total	**192 728**	**198 158**	-3%	100%

Property, plant and equipment has most substantially decreased in the portion of machines and equipment by 5,2 million BGN, other expenses by 3,3 million BGN, and land and buildings by 3,2 million BGN. The assets in process of acquisition increased by 6,2 million BGN. Intangible assets fell by 1,2 million BGN mainly in the part of intellectual property rights by 0,5 million BGN and software products by 0,5 millon BGN.

Investments in subsidiaries increased by 1,9 million BGN mainly due to the net effect from: an increase in the capital of Briz, Latvia by 5,9 million BGN, accrued impairment of investments in Vitamina AD, amounting to 2,6 million BGN, as well as a decrease of investments in Soharma Trading AD due to a sale of 1,6 million BGN. Invesmtents in associated companies incresed by 7 million BGN in relation to the acquisition of shares of Medika AD. The available-for-sale investments decreased by 2,4 million BGN mainly as a result of the reclassification of Medika AD as an investment in associated company.

Long-term loans to related parties increases by 7,5 million BGN. Long-term loans to related parties as at 31 December 2014 are to companies related through key management personnel:

- Contracted amount: 3,272 thousand EUR, interest rate — 5% , maturity — 1 December 2016, balance as at 31 December 2014 — 6,819 thousand BGN;
- Contracted amount: 11 831 thousand EUR, interest rate — 5% , maturity — 1 December 2016, balance as at 31 December 2014 — 26,038 thousand BGN;

Information on shareholdings and key investments in the country and abroad of Sopharma is presented in the notes to the financial statements - "Investments in subsidiaries" and "Available-for-sale Investments".

Current assets decreased by 1,4 million BGN or 1%, reaching 190,8 million BGN as at 31 December 2014 compared to 192,2 million BGN as at 31 December 2013.

Inventories	31.12.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
Materials	24 793	28 045	-12%	46%
Finished products	21 888	16 606	32%	40%
Semi-finished products	3 809	2 392	59%	7%
Work in progress	3 345	4 001	-16%	6%
Goods	212	205	3%	0%
Total	**54 047**	**51 249**	5%	100%

Inventories increased by 2,8 million BGN compared to 31 December 2013, mainly in the part of finished products and semi-finished products respectively by 5,3 million BGN and 1,4 million BGN. Materials decreased by 3,2 million BGN and unfinished products by 0,7 million BGN.

Receivables from related parties decreased by 3,8 million BGN as a result of both a decrease in provided commercial loans by 2,1 million BGN and receivables form sale of finished products and materials by 1,8 million BGN.

Current commercial loans granted to related companies:

To companies under common indirect control:
- Contractual amount: 7,661 thousand EUR; interest rate – 4,50%; maturity – 31 December 2015; balance at 31 December 2014 – 7,632 thousand BGN;

To companies related through key management personnel:
- Contractual amount: 10,824 thousand EUR; interest rate – 4,50%; maturity – 31 December 2015; balance at 31 December 2014 – 9,537thousand BGN;
- Contractual amount: 34,020 thousand BGN, interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 3,097 thousand BGN;
- Contractual amount: 6,000 thousand BGN; interest rate – 5,50%; maturity – 22 July 2015; balance at 31 December 2014 – 1,236thousand BGN.
- Contractual amount: 1 300 thousand BGN; interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 477 thousand BGN.
- Contractual amount: 190 thousand BGN; interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 128 thousand BGN.

To subsidiaries:
- Contractual amount: 2 770 thousand EUR; interest rate – 6,10%; maturity – 31 December 2015; balance at 31 December 2014 – 6,711 thousand BGN;
- Contractual amount: 2,460 thousand BGN; interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 2,903 thousand BGN.

- Contractual amount: 205 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2014 – 355 thousand BGN;
- Contractual amount: 600 thousand BGN; interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 151 thousand BGN;
- Contractual amount: 25 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2014 – 46 thousand BGN;
- Contractual amount: 20 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2014 – 37 thousand BGN;

Commercial receivables increased by 1,1 million BGN, in the portion of receivables from customers compared to 31 December 2013.

Other receivables and advance payments increased by 3,8 million BGN. Mainly this is due to an increase in tax recovery by 2,1 million BGN and advance payments by 1,6 million BGN.

Cash and cash equivalents decreased by 5,3 million BGN and as at 31 December 2014 amount to 2,9 million BGN, compared to 8,2 million BGN as at 31 December 2013.

Liabilities and owners' equity

	31.12.2014	31.12.2013	Change	Share 2014
OWNERS' EQUITY	**BGN '000**	**BGN '000**	**%**	**%**
Share capital	132 000	132 000	0%	34%
Treasury stock	(17 203)	(18 105)	-5%	-4%
Reserves	246 243	220 935	11%	63%
Retained earnings	28 666	35 905	-20%	7%
TOTAL OWNERS' EQUITY	***389 706***	***370 735***	5%	100%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	37 972	48 723	-22%	23%
Liabilities on deferred taxes	3 988	3 943	1%	2%
Long-term liabilities to the personnel upon retirement	2 219	1 855	20%	1%
Government financing	3 358	3 534	-5%	2%
Financial leasing liabilities	34	49	-31%	0%
	47 571	***58 104***	-18%	29%
Current liabilities				
Short-term bank loans	90 761	98 878	-8%	55%
Short-term part of long-term bank loans	7 391	3 822	93%	4%
Liabilities to related parties	7 929	7 836	1%	5%
Commercial liabilities	6 553	4 973	32%	4%
Liabilities for taxes	902	1 243	-27%	1%
Liabilities to the personnel and for social insurance	4 213	3 736	13%	3%
Other current liabilities	969	975	-1%	1%
	118 718	***121 463***	-2%	71%
TOTAL LIABILITIES	***166 289***	***179 567***	-7%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	***555 995***	***550 302***	1%	

Equity increased by 19 million BGN or 5%, reaching 389,7 million BGN as at the end of 2014 compared to 370,7 million BGN as at the end of 2013 mainly as a result of the net effect of an increased reserves by 25,3 million BGN and a decrease of undistributed profit by 7,2 million BGN. At the end of 2014 the treasury shares amount to 5,114,130. During the reporting period no new issue of securities was conducted.

Non-current liabilities decreased by 10,5 million BGN or 18% to 47,6 million BGN as at the end of 2014 compared to 58,1 million BGN as at the end of 2013 mainly due to a decrease of long-term bank loans by 10,8 million BGN.

Current liabilities decreased by 2,7 million BGN or 2% to 118,7 million BGN as at the end of 2014 compared to 121,4 million BGN as at the end of 2013. This is mainly due to a decrease in short-term bank loans by 8,1 million BGN. The short-term part of long-term bank loans and commercial liabilities increased by 3,6 million BGN and 1,6 million BGN. The total exposition to bank loans of the Company as at 31 December 2014 decreased by 15,3 million BGN compared to 31 December 2013.

Liabilities to related parties increased by 0,1 million BGN. Tax liabilities decreased by 0,3 million BGN. Liabilities to personnel and for social security increased by 0,5 million BGN.

Cash flow

	31.12.2014 BGN '000	31.12.2013 BGN '000
Net cash flow from operations	30 151	91 443
Net cash flow used for investment activities	(11 252)	(13 890)
Net cash flow used in financial operations	(24 233)	(72 477)
Net (decrease)/increase of cash and cash equivalents	(5 334)	5 076
Cash and cash equivalents on 1 January	7 671	2 595
Cash and cash equivalents on 31 December	2 337	7 671

Net cash flows as at 31 December 2014 generated from operating activities amounted to 30,2 million BGN, net cash from investing activities (11,3) million BGN and financing activities (24,2) million BGN. As a result of these activities cash and cash equivalents mark a net decrease of 5,3 million BGN and as at 31 December 2014 amount to 2,3 million BGN compared to 7,7 million as at 31 December 2013.

Ratios

	31.12.2014	31.12.2013	Change
ROE	6,8%	9,2%	-2,4%
ROA	4,7%	5,8%	-1,1%
Asset turnover	0,36	0,37	-0,01
Current liquidity	1,61	1,58	0,03
Quick ratio	1,15	1,16	-0,01
Cash/current liabilities	0,02	0,07	-0,05
Owners' equity/liabilities	2,34	2,06	0,28

Information about the shares of Sopharma AD

The total number of outstanding shares at 31 December 2014 of Sopharma AD is 132 million with a nominal value of 1 BGN per share. All issued shares are registered, dematerialized, registered and indivisible. All issued shares are of one class. Each share gives equal rights to its owner, proportionate to the nominal share value. Shares of Sopharma AD are listed on the official market of the Bulgarian Stock Exchange - Sofia and the official market of the Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BGBX40 and BGTR30 of the Bulgarian Stock Exchange - Sofia.

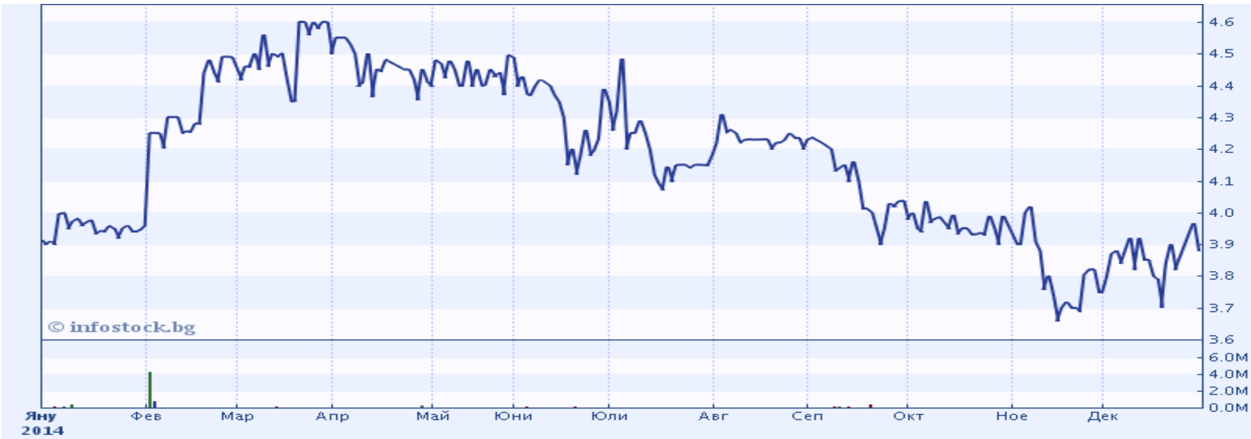
The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

Sopharma AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE), which the Warsaw Stock Exchange started to calculate on 30 May 2012. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

Key indicators of the shares of Sopharma AD

	31.12.2014	31.12.2013	Change
Total number of issued shares	132 000 000	132 000 000	-
Average-weighted number of outstanding shares for the last four quarters	126 913 907	127 422 985	-509 078
Number of shares outstanding at the end of the period	126 885 870	126 539 324	346 546
Earnings per share in BGN	0,209	0,264	-0,055
Price per share at the end of the period in BGN	3,880	3,914	-0,034
Price/Earnings ratio (P/E)	18,56	14,83	3,73
Book value per share in BGN	3,071	2,922	0,149
Price/Book value ratio (P/B)	1,26	1,34	-0,08
Sales per share in BGN	1,588	1,707	-0,119
Price per share / Sales per share(P/S)	2,44	2,293	0,147
Market capitalization in BGN	512 160 000	516 648 000	4 488 000

Trade with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2014 – 31 December 2014



Ognian Donev, PhD
/Executive Director/

AUDIT
FINANCE
ACCOUNTING
TAX
LAW

INDEPENDENT AUDITOR'S REPORT

TO
THE SHAREHOLDERS
OF SOPHARMA AD

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of Sopharma AD (the Company), which comprise the separate statement of financial position as at 31 December 2014, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes and information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards, accepted by the Commission of the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Independent Financial Audit Law and the professional requirements of International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Sopharma AD as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, accepted by the Commission of the European Union.

Emphasis of Matter

We draw attention to Note 2.2 to these separate financial statements that at the date of their issuance, the consolidated financial statements for the same period have not yet been issued by the Company. The management plans to issue the consolidated financial statements not later than 30 April 2015. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Annual Report on the activities of Sopharma AD under the Bulgarian Accountancy Act (Art. 33)

Pursuant to the requirements of the Bulgarian Accountancy Act (Art. 38, para 4), we have read the Annual Report of the management on Sopharma AD activities for the reporting year 2014. This Report is not a part of the separate annual financial statements for the same period. The management of the

Company is responsible for the preparation of this Annual Report on the activities dated 27 March 2015. The historical financial information presented in the Annual Report on the activities is consistent, in all material respects, with the information disclosed in the Company's separate financial statements as at 31 December 2014, prepared in accordance with International Financial Reporting Standards, accepted by the Commission of the European Union.

AFA OOD

Registered Specialised Audit Firm

Valia Iordanova Iordanova

General Manager

Renny Georgieva Iordanova

Registered CPA in charge of the audit

27 March 2015

38, Oborishte Street
1504-Sofia, Bulgaria

This is a translation from Bulgarian of the Independent Auditor's Report on the Separate Financial Statements of Sopharma AD for the year ended 31 December 2014.