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

		Notes	2016 BGN'000	2015 BGN'000
Revenue		3	163,827	173,803
Other operating income/(losses), net		4	4,193	3,651
Changes in inventories of finished goods and work in progress			360	6,667
Raw materials and consumables used		5	(55,172)	(61,619)
Hired services expense		6	(33,297)	(41,275)
Employee benefits expense		7	(34,414)	(35,331)
Depreciation and amortisation expense		15,16	(13,919)	(14,549)
Other operating expenses		8,9	(5,244)	(6,210)
Profit from operations			**26,334**	**25,137**
Impairment of non-current assets		10	(5,627)	(8,567)
Finance income		11	24,158	17,922
Finance costs		12	(3,176)	(6,312)
Finance income/(costs), net			**20,982**	**11,610**
Profit before income tax			**41,689**	**28,180**
Income tax expense		13	(3,919)	(2,826)
Net profit for the year			**37,770**	**25,354**
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Gain on revaluation of property, plant and equipment, net		14,15	2,629	-
Remeasurements of defined benefit pension plans		32	(120)	(51)
Income tax relating to items of other comprehensive income that will not be reclassified		13	(263)	-
			2,246	**(51)**
Items that may be reclassified to profit or loss:				
Net change in fair value of available-for-sale financial assets			1,515	193
			1,515	**193**
Other comprehensive income for the year, net of tax		14	**3,761**	**142**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			**41,531**	**25,496**
Net earnings per share	BGN	28	**0.29**	**0.20**

The accompanying notes on pages 5 to 104 form an integral part of these financial statements.

Executive Director: ***Ognian Donev, PhD***

Finance Director: ***Boris Borisov***

Chief Accountant (preparer): ***Yordanka Petkova***

SOPHARMA AD • BULGARIA • SOFIA

AUDITED BY AFA
27/03/2017

SEPARATE STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	31 December 2016 BGN'000	31 December 2015 BGN'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	209,326	211,943
Intangible assets	16	2,177	2,507
Investment property	17	22,840	22,160
Investments in subsidiaries	18	147,583	132,899
Investments in associates	19	5,219	-
Available-for-sale investments	20	5,229	5,510
Long-term receivables from related parties	21	11,011	20,505
Other long-term receivables	22	3,714	3,257
		407,099	**398,781**
Current assets			
Inventories	23	56,807	61,701
Receivables from related parties	24	71,076	78,035
Trade receivables	25	22,479	21,466
Loans granted to third parties	26 (a)	2,445	2,481
Other receivables and prepayments	26 (b)	4,859	4,400
Cash and cash equivalents	27	4,343	3,745
		162,009	**171,828**
TOTAL ASSETS		**569,108**	**570,609**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		134,798	134,798
Treasury shares		(18,809)	(17,597)
Reserves		304,403	284,227
Retained earnings		42,483	30,198
	28	**462,875**	**431,626**
LIABILITIES			
Non-current liabilities			
Long-term bank loans	29	23,844	30,819
Deferred tax liabilities	30	5,703	4,697
Government grants	31	5,866	6,371
Retirement benefit obligations	32	2,649	2,426
Finance lease liabilities	33	-	3
		38,062	**44,316**
Current liabilities			
Short-term bank loans	34	48,291	68,961
Current portion of long-term bank loans	29	7,185	7,380
Trade payables	35	4,712	8,014
Payables to related parties	36	497	3,070
Tax payables	37	609	965
Payables to personnel and for social security	38	5,363	4,769
Other current liabilities	39	1,514	1,508
		68,171	**94,667**
TOTAL LIABILITIES		**106,233**	**138,983**
TOTAL EQUITY AND LIABILITIES		**569,108**	**570,609**

The accompanying notes on pages 5 to 104 form an integral part of these financial statements.

The financial statements on pages 1 to 104 were approved for issue by the Board of Directors and signed on its behalf on 27 March 2017 by:

Executive Director: *Ognian Donev, PhD*

Finance Director: *Boris Borisov*

Chief Accountant (preparer): *Yordanka Petkova*

SOPHARMA AD BULGARIA

AUDITED BY AFA
27/03/2017

SOPHARMA AD

SEPARATE STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Notes	2016 BGN'000	2015 BGN'000
Cash flows from operating activities			
Cash receipts from customers		175,838	185,756
Cash paid to suppliers		(106,733)	(119,466)
Cash paid to employees and for social security		(32,713)	(34,090)
Taxes paid (except income taxes)		(5,958)	(5,892)
Taxes refunded (except income taxes)		2,031	4,727
Income taxes (paid)/refunded, net		(3,230)	(758)
Interest and bank charges paid on working capital loans		(1,525)	(2,519)
Foreign currency exchange gains/(losses), net		(211)	45
Other proceeds/(payments), net		(863)	595
Net cash flows from operating activities		**26,636**	**28,398**
Cash flows from investing activities			
Purchases of property, plant and equipment		(5,640)	(9,126)
Proceeds from sales of property, plant and equipment		441	134
Purchases of intangible assets		(95)	(29)
Proceeds from sales of intangible assets		15	-
Purchases of shares in associates		(2,058)	(14,818)
Purchases of available-for-sale investments		(2,080)	(1,451)
Proceeds from sales of available-for-sale investments		741	474
Purchases of shares in subsidiaries		(25,631)	(2,673)
Proceeds from sales of shares in subsidiaries		18,466	3,399
Loans granted to related parties		(5,958)	(14,297)
Loan repayments by related parties		23,362	28,787
Loans granted to other companies		(784)	(2,232)
Loan repayments by other companies		281	856
Dividends received from investments in subsidiaries		9,110	7,831
Dividends received from available-for-sale investments		51	8
Interest received on granted loans		2,777	2,727
Other proceeds/(payments), net		(107)	-
Net cash flows from/(used in) investing activities		**12,891**	**(410)**
Cash flows from financing activities			
Repayment of long-term bank loans		(7,186)	(7,226)
Proceeds from short-term bank loans (overdraft), net		13,884	3,361
Repayment of short-term bank loans (overdraft), net		(34,495)	(25,175)
Interest and charges paid under investment purpose loans		(873)	(1,208)
Government grants received		-	3,000
Treasury shares		(1,212)	(394)
Dividends paid		(9,026)	(10)
Payments of finance lease liabilities		(21)	(69)
Net cash flows used in financing activities		**(38,929)**	**(27,721)**
Net increase in cash and cash equivalents		**598**	**267**
Cash and cash equivalents at 1 January		3,745	3,478
Cash and cash equivalents at 31 December	27	**4,343**	**3,745**

The accompanying notes on pages 5 to 104 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
27/03/2017

SEPARATE STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Notes	Share capital	Treasury shares	Statutory reserves	Revaluation reserve - property, plant and equipment	Available-for-sale financial assets reserve	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 2015		**132,000**	**(17,203)**	**33,555**	**22,434**	**1,097**	**189,157**	**45,484**	**406,524**
Changes in equity for 2015									
Effects of a subsidiary merger	2.3	2,798	-	8,785	344	-	-	(11,927)	-
Treasury shares		-	(394)	-	-	-	-	-	(394)
Distribution of profit for:		-	-	2,916	-	-	26,238	(29,154)	-
** reserves*		-	-	*2,916*	-	-	*26,238*	*(29,154)*	-
Total comprehensive income for the year, including:		-	-	-	-	**193**	-	**25,303**	**25,496**
** net profit for the year*		-	-	-	-	-	-	*25,354*	*25,354*
** other comprehensive income, net of taxes*		-	-	-	-	*193*	-	*(51)*	*142*
Transfer to retained earnings		-	-	-	(492)	-	-	492	-
Balance at 31 December 2015	28	**134,798**	**(17,597)**	**45,256**	**22,286**	**1,290**	**215,395**	**30,198**	**431,626**
Changes in equity for 2016									
Treasury shares		-	(1,212)	-	-	-	-	-	(1,212)
Distribution of profit for:		-	-	2,585	-	-	14,191	(25,846)	(9,070)
** reserves*		-	-	*2,585*	-	-	*14,191*	*(16,776)*	-
** dividends*		-	-	-	-	-	-	*(9,070)*	*(9,070)*
Total comprehensive income for the year, including:		-	-	-	**2,366**	**1,515**	-	**37,650**	**41,531**
** net profit for the year*		-	-	-	-	-	-	*37,770*	*37,770*
** other comprehensive income, net of taxes*		-	-	-	*2,366*	*1,515*	-	*(120)*	*3,761*
Transfer to retained earnings		-	-	-	(481)	-	-	481	-
Balance at 31 December 2016	28	**134,798**	**(18,809)**	**47,841**	**24,171**	**2,805**	**229,586**	**42,483**	**462,875**

The accompanying notes on pages 5 to 104 form an integral part of these financial statements.

Executive Director: ***Ognian Donev, PhD***

Finance Director: ***Boris Borisov***

Chief Accountant (preparer): ***Yordanka Petkova***

BULGARIA

AUDITED BY AFA
27/03/2017

SOPHARMA AD

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. BACKGROUND CORPORATE INFORMATION

SOPHARMA AD is a business entity registered in Bulgaria with a seat and registered address of management: Sofia, 16, Iliensko Shousse St. The Company was entered in the Commercial Registry on 11 April 2008 with UIC 831902088.

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

1.1. Ownership and management

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

As at 31December 2016, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	24.781
Telecomplect Invest AD	20.146
Rompharm Company OOD	18.037
ZPAD Allianz Bulgaria	5.171
Sopharma AD (treasury shares)	4.201
Other legal persons	23.749
Natural persons	3.914

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

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

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

The Audit Committee supports the work of the Board of Directors and plays the role of those charged with governance that exercise monitoring and control over the internal control system, risk management and Company's system of financial reporting.

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairman
Tsvetanka Zlateva	Member
Vasil Piralkov	Member

The average number of Company's personnel for 2016 is 1,873 workers and employees (2015: 2,010).

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 as well as engineering and implementation activities in the field of medicinal products.

The Company holds manufacturing / import authorisation for medicinal products No P-I-10-14/B-I-21-002 dated 28 October 2015, issued by the Bulgarian Drug Agency (BDA).

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 2013 – 2016, are presented in the table below:

Indicator	**2013**	**2014**	**2015**	**2016**
GDP in million levs	82,166	83,634	88,571	91,873*
Actual growth of GDP	0.9%	1.3%	3.6%	3.4%*
Year-end inflation (HICP)	-0.9%	-2.0%	-0.9%	-0.5%
Average exchange rate of USD for the year	1.47	1.47	1.76	1.77
Exchange rate of the USD at year-end	1.43	1.59	1.80	1.86
Basic interest rate at year-end	0.02	0.02	0.01	0.00
Unemployment rate at year-end	11.8%	10.7%	10.0%	8.0%

** BNB forecast for 2016; Source: BNB*

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 2016 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

For the current financial year the Company has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the

International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities.

The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2016, has not caused changes in the accounting policies, except for some new disclosures and the expansion of those already adopted, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

The new and/or amended standards and interpretations include:

- *IAS 1 (amended) "Presentation of Financial Statements" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on preparers of financial statements when they need to exercise judgment for the materiality of particular information and its presentation in the preparation of financial statements, i.e. the including or not of specific information, presentation approach for the statement of financial position and the statement of comprehensive income – aggregation or separate presentation, approach in the arrangement of notes as well as the presentation of some particular items in the financial statements;
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 41 (amended) "Agriculture" – regarding bearer plants (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment introduces a measurement and accounting approach for fruit-bearing plants (bearer plants) that applies the principle for property, plant and equipment (PPE) used in IAS 16 rather than the approach prescribed by IAS 41 (i.e. applying the cost model with an option to choose the revaluation model after reaching maturity) because their involvement in agricultural produce is similar to that of PPE in the industrial production process;
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 38 (amended) "Intangible Assets" – regarding the acceptable methods of depreciation and amortisation (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This clarification specifies that the method for calculating the depreciation or amortisation of an asset, based on a ratio to expected revenue, in the generation of which it is involved, is not regarded an appropriate method for measuring the economic benefits consumed as a result of the use of this asset (allowed only in very rare cases as an exception);
- *IAS 19 (as revised in 2011) "Employee Benefits" (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC for annual periods as of 1 February 2015).* This amendment relates to clarification regarding the treatment of contributions from employees or third parties to defined benefit plans in accordance with the formal terms of the respective plan. The amendment clarifies that these contributions should be treated as a reduction in the service cost by being allocated to the period of service, when they are linked to the number of employee's years of service, and should be deducted from the service cost in the period in which the related services are rendered, when the contributions are independent of the number of years of service;
- *IAS 27 (amended) "Separate Financial Statements" – regarding the equity method in separate financial statements (in force for annual periods beginning on or after 1 January 2016 – endorsed*

by EC). This amendment restores the option of IAS 27 that allows entities to use the equity method to account for and measure the investments in subsidiaries, associates and joint ventures in their separate financial statements;

- *IFRS 10 (amended) "Consolidated Financial Statements", IFRS 12 (amended) "Disclosure of Interests in Other Entities" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding exemptions from consolidation for investment entities (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment addresses issues that have arisen in the context of applying the consolidation exception for companies with status of parents, namely: (1) whether and how an investment entity should account for a subsidiary at fair value if the subsidiary provides investment services to third parties or supporting services to the investment entity itself; (2) the interaction between amendments for investment entities and the exemption from consolidation under IFRS 10; (3) whether a non-investment entity should apply the fair value accounting of its joint ventures or associates that are investment entities;

- *IFRS 11 (amended) "Joint Arrangements" – regarding acquisitions of interests in joint operations (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment clarifies mainly that when an investor acquires interest in a joint operation, which in substance constitutes a business, this requires the application of the requirements and rules of IFRS 3 for business combinations.

- *IFRS 14 "Regulatory Deferral Accounts" (in force for annual periods beginning on or after 1 January 2016 – EC has postponed the endorsement process for this interim standard until the issue of the final standard).* This is a new standard with status of an interim standard, applicable only for entities, which will adopt IFRS for the first time as a reporting framework, and it is effective until the completion of the project for a new comprehensive standard intended to address such type of rate-regulated activities. It is not applied by entities that already apply IFRS;

- *Annual Improvements to IFRSs 2010-2012 Cycle (December 2013) – improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC for annual periods as of 1 February 2015).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) change in the definition of 'vesting period' and 'market conditions' and add of separate definitions for 'performance condition' and 'service condition' (IFRS 2); (b) clarification on the accounting for a contingent consideration in a business combination that meets the definition for 'financial instrument' (as a financial liability or equity instrument) and its measurement at fair value at the end of each reporting period, including the effects of that in the statement of comprehensive income (IFRS 3, IFRS 9, IAS 39 and IAS 37); (c) requirement for disclosure on the judgments and criteria applied in the aggregation of operating segments for segment reporting purposes (IFRS 8); (d) additional clarification on the adjustment technique regarding the gross carrying amount and accumulated depreciation in cases of revalued assets whereas setting a requirement for consistency with the revaluation approach of the carrying amount of the respective asset (IAS 16, IAS 38); (e) clarification that an entity providing key management personnel services to another entity it is also a related party thereto (IAS 24);

- *Annual Improvements to IFRSs 2012-2014 Cycle (September 2014) – improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (1) additional clarifications that an entity may reclassify an asset from 'held for sale' to 'held for distribution to owners' (and vice versa) and this is not treated as a change in the original plan of disposal as well as in the date of classification as per IFRS 5; (2) additional guidance to clarify whether a servicing contract for a fully derecognised transferred financial asset constitutes in substance a continuing involvement in a transfer for the purposes of determining the scope of the disclosures required, as well as clarification on the applicability of the disclosure requirements regarding the offsetting of financial assets and financial liabilities in condensed interim financial statements (IFRS 7); (3) clarification regarding the requirement of the standard that high quality corporate bonds, used to estimate the discount rate for post-employment benefits, should be issued in the same currency as the benefits to be paid to the respective employees, i.e. the depth of the market should be assessed at currency level (IAS 19); and (4) clarification on the disclosure requirement 'elsewhere in the interim report', i.e. that this means the presentation of information in any place in the interim financial statements but also presentation elsewhere in the greater interim report, including interim report of the management, provided that a cross-reference exists between the interim financial statement and wherever the disclosures are included (IAS 34);

At the 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 2016, which have not been adopted by the Company for early application. The management has decided 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:

- *IAS 7 (amended) "Statement of Cash Flows" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on the information provided to the users of financial statements in order to improve their understanding of the liquidity and the financing activities of the entity. The amendment requires that additional disclosures and clarifications be prepared in regards to the changes of liabilities of the entity from: (a) changes arising from financing activities as a result of transactions leading to changes in cash flows; or (b) changes resulting from non-cash transactions such as acquisitions and disposals, interest accrual, foreign currency exchange gains and losses, changes in fair values and other similar. Changes in the financial assets should be included in this disclosure if the resulting cash flows are presented under financing activities (e.g. in certain hedge transactions). It is allowable to include also changes in other items as part of the disclosure if they are presented separately;

- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC) – recognition of deferred tax assets for unrealised losses.* This amendment clarifies deferred tax assets in cases where an asset is measured at fair value and that fair value is below the tax base. The amendment clarifies that: (a) temporary differences arise regardless of whether the carrying amount of the asset is less than its tax base; (b) the respective entity should assess, when estimating its future taxable profits, whether it could deduct an amount higher than the carrying amount of the asset or not; (c) if, according to the tax legislation, there are restrictions for the use of taxable profits against which particular deferred tax assets can be recovered, the review and assessment of deferred tax assets recoverability should be made in combination with the remaining deferred tax assets of the same type; and (d) the deductions for tax purposes resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets;

- *IAS 40 (amended) "Investment Property" – regarding transfers of investment property (in force for annual periods beginning on or after 1 July 2018 – not endorsed by EC).* The amendment refers to an additional clarification regarding the terms and criteria that allow transfers of property to, or from, the category 'investment property'. More specifically, when the subject of transfer represents buildings under construction with a change in their use. Such transfers are possible and allowable only when the property meets, or respectively, ceases to meet, the criteria and definition of investment property – then it is deemed that evidence exists for a change in its use. A change in the intents and plans of the management are not regarded as evidence for a change in use;

- *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 9 "Financial Instruments" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety. The replacement project has passed through three phases: <u>Phase 1</u>: Classification and measurement of financial assets and financial liabilities; <u>Phase 2</u>: Hedge accounting; and <u>Phase 3</u>: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally in July 2014. <u>Phase 1</u>: Classification and measurement of financial assets and financial liabilities – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out new principles, rules and criteria for classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortised cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and measurement model for financial assets at fair value is the addition of a new category – fair value through other comprehensive income (for certain debt and capital instruments). Phase 2: Hedge accounting – a new chapter to IFRS 9 has been added for this purpose whereby a new hedge accounting model is introduced that permits consistent and complete reflection of all financial and non-financial risk exposures, subject to hedge transactions, and also, better presentation of risk management activities in the financial statements and especially, their relation to hedge transactions, and the scope and type of documentation to be used. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced fair value changes of own debts, measured at fair value through profit or loss, in the part thereof due to changes in the Group's own credit quality, to be presented in other comprehensive income rather than in profit or loss. The entities that apply IAS 39 will be able to apply this option but they will also be able to continue applying the requirements for fair value hedge accounting of an interest rate exposure under IAS 39 even when IFRS becomes effective. Phase 3: Impairment methodology – the amendment introduces the application of the 'expected loss' model. Under this model all expected credit losses of an amortisable financial instrument (asset) shall be recognised in three stages, depending on its credit quality change, and not only if a trigger event has occurred as per the current model under IAS 39. The three stages are: upon the initial recognition of the financial asset – impairment for the 12-month period or for the full lifetime of the asset; and respectively – upon the occurrence of the actual impairment. They also set out how to measure impairment losses and respectively the application of the effective interest rate;

- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associate or joint venture (in force for annual periods beginning on or after 1 January 2016 – the EC endorsement procedure has been postponed for an indefinite period).* This amendment arises as a result of the existing inconsistency between the requirements and rules of IFRS 10 and IAS 28 (as revised in 2011) regarding transactions between an investor and its associate or joint venture. It basically clarifies that in transactions, representing in substance a sale or contribution of an aggregate of assets but not constituting a business, gains or losses are recognised partially to the extent attributable to other equity holders, while in transactions, representing in substance a sale or contribution of assets but constituting a business within the meaning of IFRS 3 – gains or losses are recognised in full;

- *IFRS 15 "Revenue from Contracts with Customers" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).*This is an entirely new standard. It introduces a single complex of principles, rules and approaches for recognition, accounting for and disclosure of information about the nature, amount, timing and uncertainties related to revenue and cash flows arising from contracts with 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 sale price of each component; and (e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time. The expectation is that the introduction of this standard may lead to the following changes: (a) in complex contracts with bundled sales of goods and services a clear distinction will be required between the goods and services of each component and provision of the contract; (b) probability for a change in the time of sale recognition; (c) expanding of disclosures; and (d) introduction of additional rules for recognising the revenue from a particular type of contracts – licences; consignment; one-time collection of preliminary fees; guarantees and other similar. The standard allows a full retrospective approach or a modified retrospective approach from the beginning of the current reporting period with particular disclosures for prior periods;

- *IFRS 15 "Revenue from Contracts with Customers" – clarifications (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These clarifications refer to (a) identifying performance obligations on the basis of distinct promises to transfer goods or services; (b) identifying whether an entity is a principal or an agent in the transfer of goods or services (principal versus agent considerations); and (c) licences transfer. In addition, this amendment also provides some relief in the transition to the new standard;

- *IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions both for lessee and lessor. The standard will supersede the effective so far standard related to leases – IAS 17. (a) The main principle of the new standard is the introduction of a single lessee accounting model – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under the contracts. This is the significant change in the current accounting practice. The standard allows an exception and retaining the old practice for leases of low-value assets and short-term leases; (b) There would not be any significant changes with the lessors and they would continue to account for leases as per the old standard IAS

17 – operating and finance. As far as the new standard introduces a more thorough concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures. Company's management is in a process of in-depth research of the possible effects and the cases of rental and lease contracts with customers where changes will be required in the accounting policies applied so far;

- *Annual Improvements to IFRSs 2014-2016 Cycle (December 2016) – improvements to IFRS 12 (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC), IFRS 1 and IAS 28 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) the scope and requirements to the disclosures in IFRS 12 shall apply also to entities that are classified under IFRS as held for sale, as held for distribution or as discontinued operations; (b) removal of certain exemptions in the application of IFRS 1; and (c) the choice of venture capital funds or other similar entities to measure their investments in associates or joint ventures at fair value through profit or loss and this choice is available on an investment-by-investment basis, upon initial recognition (IAS 28);
- *IFRIC 22 (amended) "Foreign Currency Transactions and Advance Consideration" (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* This Interpretation applies to the accounting for a foreign currency transaction or part of it on the receipt of advance consideration before the entity recognises the related asset, expense or income. In these cases the entities shall recognise an asset for the advance consideration (advance consideration paid on supply of assets or services) or a liability for deferred income (advance consideration received from clients on sales) and they are treated as non-monetary. Upon receipt of such advance consideration in a foreign currency, the transaction date shall be used to determine the exchange rate while in case of multiple payments the entity shall determine a date of the transaction for each individual payment.

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

- *IFRS 2 (amended) "Share-based Payment" – clarifications (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These clarifications specify the following: (a) the treatment of vesting conditions in the measurement and accounting for cash-settled share-based payment transactions; (b) approach for the classification of share-based payment transactions with net settlement features for the purposes of withholding personal tax for entity's employees (in the form of equity instruments) – by introducing an exception from the common rule in order to achieve a facilitation in the practice, these transactions shall be classified in a way as if in the absence of the net share settlement feature; and (c) a new rule of accounting whereby a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled;

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

The 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 2.30*, *Note 15*, *Note 17* and *Note 20*.

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated annual financial statements for year 2016 in accordance with IFRS for year 2016 whereas these separate annual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated financial statements will be approved for issue by the Board of Directors of the Company not later than 30 April 2017 and after this date the financial statements will be publicly made available to third parties.

2.3. Merger of Bulgarian Rose Sevtopolis into Sopharma AD (takeover)

(a) legal form of the merger

The merger of Bulgarian Rose Sevtopolis AD (transforming company) into Sopharma AD (receiving company) was made through the legal form of transformation, regulated by the Commercial Act. The merger was entered in the Commercial Register at the Registry Agency on 26 February 2015. As a result of the transaction, the total assets of Bulgarian Rose Sevtopolis AD were transferred to Sopharma AD while Bulgarian Rose Sevtopolis AD was wound-up without liquidation.

By virtue of a decision taken by an extraordinary General Meeting of the Shareholders, held on 9 January 2015, after the completion of the procedures, set out in the Commercial Act, the share capital of Sopharma AD was increased from BGN 132,000 thousand to BGN 134,798 thousand (Commercial Act, Art. 262y). New 2,797,899 shares were issued with nominal value of BGN 1 each and issue value of BGN 4.14 equal to the fair price of 1 share of Sopharma AD. Exchange ratio was calculated based on the net assets fair value of both companies. The exchange ratio was subject to examination by an assigned independent examiner who issued a report, dated 12 June 2014 (Commercial Act, Art. 262м). The Transformation Agreement and Examiner's Report were approved by the General Meeting of the receiving company on 9 January 2015.

The purpose of the transaction for transformation of both companies was as follows:

- restructuring of the companies in Sopharma Group in order to eliminate overlapping activities;
- focus of the efforts on production and trade activities, and respectively, optimisation of administrative expenses;
- enhancing efficiency and achieving synergy in both management and production and trade activities as well as costs optimisation.

(b) method of accounting for the merger

For the purposes of accounting, the date 1 January 2015 was accepted as a merger date. Up to that date, Bulgarian Rose Sevtopolis AD has been a subsidiary of Sopharma AD. The performed transaction is treated as restructuring of the activities of both companies. The merger was accounted for by applying the 'uniting of interests' method. In cine with the requirements and rules of this method. the operations and the assets of the companies are presented in these financial statements as if they have always been united regardless of the legal events and procedures and their effect on the legal status and life of the receiving and the transforming company. The effects of all business operations between the receiving and the transforming company, including the outstanding balances, are eliminated regardless of whether arisen prior to or after the restructuring. All differences arising on the merger operation are stated in equity – within 'retained earnings' component *(Note 28).*

2.4. Comparatives

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

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

2.5. Functional currency and recognition of exchange differences

The functional 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.

2.6. 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, net gain on exchange differences from revaluation of loans in a foreign currency, proceeds/gains from investments in securities and shares, including dividends.

2.7. Expenses

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

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

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

Finance costs are 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 securities and shares and impairment of granted commercial loans.

2.8. Property, plant and equipment

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

Initial acquisition

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

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

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- facilities – 5-25 years;
- machinery and equipment – 7-34 years;
- computers and mobile devices – 2-5 years;
- servers and systems – 4-12 years;
- motor vehicles – 5-12 years;
- furniture and fixtures – 3-12 years.

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

Impairment of assets

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

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the 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). The part of 'revaluation reserve' component attributable to the sold asset is directly transferred to 'retained earnings' component in the statement of changes in equity.

2.9. Biological assets

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

The fair value of biological assets is determined on the basis of their 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.

2.10. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of the share of Sopharma AD in the net identifiable assets of the subsidiary (Bulgarian Rose Sevtopolis AD) at the date of its acquisition (the business combination).This goodwill on the merger of the subsidiary into the parent company is recognised in the separate statement of financial position of the parent. Goodwill is presented within the 'intangible assets' group.

Goodwill is measured at acquisition cost (cost), determined at the date of the actual business combination, less the accumulated impairment losses. It is not amortised. It is subject to annual review for existence of impairment indicators. Impairment losses on goodwill are presented in the separate statement of comprehensive income (within profit or loss for the year) in the item 'impairment of non-current assets'.

Other intangible assets

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

The Company applies 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).

2.11. Investment property

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the statement of financial position at fair value *(Note 2.29)*. 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. Gains or losses arising from the disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset at the disposal date. They are presented under 'other operating income/(losses), net' in the statement of comprehensive income (within profit or loss for the year).

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

2.12. Investments in subsidiaries and associates

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

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

In purchases and sales of investments in subsidiaries and associates the date of trading (conclusion of the 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. Gain/(loss) on disposal is presented respectively as 'finance income' or 'finance costs' in the statement of comprehensive income (within profit or loss for the year).

2.13. Available-for-sale investments

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 for a long term.

Initial measurement

Available-for-sale investments (financial assets) are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition *(Note 2.24)*.

Subsequent measurement

The available-for-sale investments (financial assets), held by the Company, are subsequently measured at fair value (*Note 2.29*) 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).

2.14. Inventories

Inventories are valued in the financial statements as follows:

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

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

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage/sale;

- finished products, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs. Fixed production overheads are included in the production cost of manufactured finished products, semi-finished products and work in progress based on the normal operating capacity determined on the grounds of commonly maintained average volume of production confirmed by the production plan. The base, chosen for their allocation at unit-of-production level, is the standard rate of man-hours of directly engaged staff in the production of the particular unit.

The Company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard acquisition costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs. Where necessary, the value of inventories, included in the financial statements, is adjusted. On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the financial statements (*Note 2.30).*

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

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

2.15. Trade 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 2.24).*

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).

2.16. 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 2.24*).

2.17. 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 2.24*).

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.

2.18. 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 2.24).*

2.19. 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 2.24*).

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.

2.20. 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.

2.21. 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.

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

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

Short-term benefits

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

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

Tantieme and bonus schemes

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

Long-term retirement benefits

Defined contribution plans

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

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

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

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

Defined benefit plans

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

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

At the end of each reporting 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.

2.23. Share capital and reserves

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

According to the requirements of the Commercial 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 retained earnings and are carried directly to Company's equity in the 'retained earnings' component.

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

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

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

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

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

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.

2.24. Financial instruments

2.24.1. 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 on 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 2.15, 2.16 and 2.17*). 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 2.30*).

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 2.13*).

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 2.13*).

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.

2.24.2. 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 2.18, Note 2.19 and Note 2.21*).

2.25. 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 2016 is 10 % (2015: 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 utilised, with the exception of the differences arising from the recognition of an asset or liability, which has affected neither the accounting nor taxable profit /(loss) at the transaction date.

The carrying amount of all deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, whereby they could be deducted or compensated.

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

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

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

The deferred income tax liabilities of the Company as at 31 December 2016 were assessed at a rate, valid for 2017, at the amount of 10% (31 December 2015: 10%).

2.26. Government grants

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

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

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

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

2.27. Net earnings or loss per share

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

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

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

The diluted net earnings or loss per share are not calculated because no dilutive potential ordinary shares have been issued.

2.28. Segment reporting

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

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

2.29. Fair value measurement

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

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

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

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

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

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

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

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

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

The Company uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: available-for-sale financial assets, 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.

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

Allowance for impairment

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

As a result of the reviews and analyses, made in 2016, impairment of inventories was stated at the amount of BGN 2,876 thousand (2015: BGN 2,822 thousand) *(Note 5 and Note 8).*

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.

Long-term retirement benefit obligations to personnel at the amount of BGN 2,649 thousand (31 December 2015: BGN 2,426 thousand) have been stated as a result of these calculations *(Note 32)*.

Revaluation of property, plant and equipment

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

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

The management made detailed analysis of the reports of the certified appraisers, including the sensitivity tests. As a result thereof, the revaluation was accounted for, a new revaluation reserve was recognised at the amount of BGN 2,629 thousand, net of impairment (*Note 15*), and current impairment loss was stated at the amount of BGN 342 thousand *(Note 10)*.

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

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 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 calculations were made by the management with the assistance of independent certified appraisers.

As a result of the calculations, made in 2016, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 5,224 thousand was necessary (2015: BGN 8,567 thousand) *(Note 10)*.

Impairment of trade 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 8*).

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.

For 2016, the change in the recognised impairment of trade receivables totals to BGN 130 thousand – (accrued)/reversed impairment, net (2015: BGN 234 thousand (accrued)/reversed impairment, net) (*Note 9*).

Impairment of commercial loans granted

At the end of each reporting period, the Company performs a review of the commercial loans granted on an individual basis in order to identify and calculate impairment losses. When deciding whether to recognise impairment loss in the statement of comprehensive income (within profit or loss for the year), Company's management assesses whether and what visible indications and data exist as objective evidence that shows a measurable decrease in the expected cash flows from the respective counterpart – borrower. Such indications and data represent the existence of unfavourable change in the payment capacity of the borrower or national, economic or other conditions related to certain risk for a particular loan. The following basic criteria referring to borrowers are taken into account in the analysis of the risks of impairment losses: financial position and performance, including ability for generating own cash flows, problems in the servicing as well as in the quality of provided collateral in view of its type and realisation opportunities.

The recognised impairment (net of the reversed ones) for 2016, related to trade loans granted, amount totally to BGN 688 thousand (2015: (BGN 1,955 thousand) *(Note 12)*.

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 3,063 thousand (31 December 2015: BGN 2,541 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 30,629 thousand (31 December 2015: BGN 25,409 thousand).

Litigation provisions

With regard to the pending litigations against the Company, the management, jointly with Company's lawyers, has decided that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 31 December 2016 (*Note 40*).

3. REVENUE

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

	2016	*2015*
	BGN '000	*BGN '000*
Export	101,655	109,997
Domestic market	62,172	63,806
Total	**163,827**	**173,803**

Sales by product – export

	2016	*2015*
	BGN '000	*BGN '000*
Tablet dosage forms	79,380	83,404
Ampoule dosage forms	10,778	12,969
Syrup dosage forms	6,325	5,640
Ointments	3,952	5,910
Lyophilic products	593	1,125
Suppositories	434	689
Drops	189	260
Other	4	-
Total	**101,655**	**109,997**

Sales by product – domestic market

	2016	*2015*
	BGN '000	*BGN '000*
Tablet dosage forms	33,288	31,629
Ampoule dosage forms	16,682	19,610
Lyophilic products	4,993	4,721
Inhalation products	2,572	3,433
Ointments	1,842	1,763
Syrup dosage forms	1,736	1,642
Drops	605	545
Suppositories	429	454
Other	25	9
Total	**62,172**	**63,806**

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

	2016 BGN '000	***Relative share***	***2015 BGN '000***	***Relative share***
Europe	82,790	51%	91,608	53%
Bulgaria	62,172	38%	63,806	37%
Other countries	18,865	11%	18,389	10%
Total	**163,827**	**100%**	**173,803**	**100%**

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

	2016 BGN '000	***% of revenue***	***2015 BGN '000***	***% of revenue***
Client 1	62,147	38%	63,806	37%
Client 2	56,829	35%	32,550	19%
Client 3	-	-	31,762	18%

4. OTHER OPERATING INCOME AND LOSSES

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

	2016 BGN '000	***2015 BGN '000***
Services rendered	3,494	3,364
Income from government grants under under European projects	497	397
Sales of goods	*1,693*	*1,783*
Cost of goods sold	*(1,519)*	*(1,520)*
Gain on sales of goods	174	263
Sales of non-current assets	*677*	*686*
Carrying amount of non-current assets sold	*(555)*	*(824)*
Gain/(loss) on sale of non-current assets	122	(138)
Sales of materials	*4,530*	*6,007*
Cost of materials sold	*(4,421)*	*(5,890)*
Gain on sale of materials	109	117
Fines and penalties income	35	204
Gains on revaluation of biological assets to fair value *(Note 15)*	3	14
Losses on revaluation on investment property to fair value *(Note 17)*	(233)	(79)
Net loss on exchange differences under trade receivables and payables and current accounts	(258)	(800)
Other income	250	309
Total	**4,193**	**3,651**

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

Services rendered include:

	2016	***2015***
	BGN '000	***BGN '000***
Rentals	1,751	1,803
Social activities	688	638
Manufacturing services	505	333
Regulatory services	160	121
Laboratory analyses	108	198
Gamma irradiation	79	90
Transport organisation	59	47
Other	144	134
Total	**3,494**	**3,364**

Sales of goods include:

	2016	***2015***
	BGN '000	***BGN '000***
Foodstuffs	954	938
Cosmetics	425	440
Medicinal and sanitary products and dressing materials	166	149
Food supplements	143	231
Goods with technical designation	5	25
Total	**1,693**	**1,783**

The *cost of goods sold* is as follows:

`	***2016***	***2015***
	BGN '000	***BGN '000***
Foodstuffs	883	869
Cosmetics	377	378
Medicinal and sanitary products and dressing materials	140	135
Food supplements	70	116
Goods with technical designation	49	22
Total	**1,519**	**1,520**

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2016	***2015***
	BGN '000	***BGN '000***
Basic materials	40,557	47,075
Electric energy	4,185	3,934
Heat power	2,511	3,227
Laboratory materials	2,145	1,498
Auxiliary materials	1,237	1,253
Impairment of materials *(Note 9)*	1,044	401
Spare parts	872	1,211
Technical materials	723	1,028
Working clothes and personal protective equipment for labour	636	654
Fuels and lubricating materials	520	672
Water	515	494
Scrapped materials	227	172
Total	**55,172**	**61,619**

Expenses on basic materials include:

	2016	***2015***
	BGN '000	***BGN '000***
Substances	20,940	22,230
Packaging materials	7,091	9,490
Liquid and solid chemicals	6,287	7,734
Ampoules	1,881	1,951
Herbs	1,799	2,467
Tubes	1,351	1,568
Aluminium and PVC foil	842	592
Vials	366	1,043
Total	**40,557**	**47,075**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2016	*2015*
	BGN '000	*BGN '000*
Manufacturing of medicinal products	7,495	8,967
Advertising and marketing	4,633	7,902
Transportation	2,915	2,623
Buildings and equipment maintenance	2,356	3,030
Consulting services	1,889	2,963
Rentals	1,830	2,233
Logistic services – domestic market	1,520	2,032
Local taxes and charges	1,247	1,142
State and regulatory charges	1,116	646
Security	1,056	976
Subscription fees	799	756
Medical services	747	789
Services under civil contracts	673	699
Insurance	668	732
Vehicles repair and maintenance	435	345
Taxes on expenses	416	467
Announcements and communications	383	424
Licence fees and charges	370	337
Services on medicinal products registration	355	743
Clinical trials	354	1,339
Destruction of pharmaceuticals	349	215
Logistic services (export)	347	493
Commission fees	265	302
Documentation translation	242	219
Fees and charges on current bank accounts	146	151
Courier services	93	121
Other	598	629
Total	**33,297**	**41,275**

The expenses, accounted for the year, on statutory audit of the separate annual financial statements amount to BGN 85 thousand (2015: BGN 85 thousand), on tax consultataions – BGN 4 thousand (2015: BGN 16 thousand) and on other services unrelated to audit – BGN 3 thousand (2015: BGN 31 thousand).

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2016	***2015***
	BGN '000	***BGN '000***
Current wages and salaries	25,547	26,557
Social security/health insurance contributions	4,782	4,960
Social benefits and payments	2,258	2,123
Tantieme	768	792
Accruals for unused paid leaves	594	474
Social security/health insurance contributions on leaves	100	80
Accruals for long-term retirement benefit obligations *(Note 32)*	365	345
Total	**34,414**	**35,331**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2016	***2015***
	BGN '000	***BGN '000***
Entertainment allowances	1,980	2,073
Impairment of finished products and work in progress *(Note 9)*	1,805	2,421
Business trip costs	581	697
Donations	330	373
Training courses	197	205
Unrecognised input tax under VATA	160	43
Scrapped finished products and work in progress	101	2
Scrapping of non-current assets	77	270
Scrapped goods	37	-
Impairment of goods *(Note 9)*	27	-
Other taxes and payments to the state budget	20	243
Awarded amounts under litigations	7	7
Charged/(reversed) impairment of receivables, net *(Note 9)*	(130)	(234)
Other	52	110
Total	**5,244**	**6,210**

9. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on current assets include:

	2016	***2015***
	BGN '000	***BGN '000***
Impairment of finished products *(Note 8)*	1,805	2,240
Impairment of materials *(Note 5)*	1,044	401
Impairment of goods *(Note 8)*	27	-
Impairment of work in progress *(Note 8)*	-	181
Impairment of receivables	*448*	*242*
Reversed impairment of receivables	*(578)*	*(476)*
Net change in the impairment of receivables *(Note 8)*	(130)	(234)
Total	**2,746**	**2,588**

10. IMPAIRMENT OF NON-CURRENT ASSETS

Impairment losses on non-current assets include:

	2016	***2015***
	BGN '000	***BGN '000***
Impairment of investments in subsidiaries *(Note 18)*	5,224	8,567
Impairment of property, plant and equipment *(Note 15)*	342	-
Impairment of non-current intangible assets *(Note 16)*	61	-
	5,627	**8,567**

11. FINANCE INCOME

Finance income includes:

	2016	***2015***
	BGN '000	***BGN '000***
Net gain on transactions with investments in securities and shares	12,740	6,908
including gain on sale of subsidiaries	*12,721*	*6,851*
Income from equity investments	9,161	7,881
Interest income on loans granted	2,126	3,120
Net foreign exchange gain under a receivable from a sale of subsidiary	131	-
Net foreign exchange gain on loans	-	13
Total	**24,158**	**17,922**

12. FINANCE COSTS

Finance costs include:

	2016	*2015*
	BGN '000	*BGN '000*
Interest expense on loans received	2,062	3,510
Impairment of receivables under trade loans granted	688	1,955
Bank fees and charges on loans and guarantees	302	270
Effects of derivatives	109	-
Impairment of cash *(Note 27)*	8	165
Impairment of available-for-sale investments	4	398
Interest expense on finance lease	3	14
Total	**3,176**	**6,312**

13. INCOME TAX EXPENSE

Statement of comprehensive income (profit or loss for the year)	*2016*	*2015*
	BGN '000	*BGN '000*
Taxable profit for the year under tax return	31,764	23,042
Revaluation reserve included as an increase in the annual tax return	(242)	(349)
Taxable profit for the year	31,522	22,693
Current income tax expense for the year - 10% (2015: 10 %)	3,152	2,269
Prior periods tax expense	-	(76)
Deferred income taxes related to:		
Origination and reversal of temporary differences	767	633
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**3,919**	**2,826**
Reconciliation of income tax expense applicable to the accounting profit or loss		
Accounting profit for the year	*41,689*	*28,180*
Income tax – 10% (2015: 10%)	4,169	2,818
From unrecognised amounts as per tax returns related to:		
increases – BGN 6,592 thousand (2015: BGN 11,113 thousand)	659	1,111
decreases – BGN 9,440 thousand (2015: BGN 10,281 thousand)	(944)	(1,028)
Recognised deferred taxes originated in prior years	35	1
Prior periods tax expense	-	(76)
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**3,919**	**2,826**

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

	2016 BGN '000			2015 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						
Gains/(losses) on revaluation of property, plant and equipment	2,629	(263)	2,366	-	-	-
Remeasurements of defined benefit pension plans	(120)	-	(120)	(51)	-	(51)
Items that may be reclassified to profit or loss						
Net change in fair value of available-for-sale financial assets	1,515	-	1,515	193	-	193
Total other comprehensive income for the year	**4,024**	**(263)**	**3,761**	**142**	**-**	**142**

14. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2016 BGN '000	*2015 BGN '000*
Gain on revaluation of property, plant and equipment	2,629	-
Net change in fair value of available-for-sale financial assets: *Gains arising during the year*	1,522	485
Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year	(7)	(292)
Remeasurements of defined benefit pension plans	(120)	(51)
	4,024	**142**
Income tax relating to items of other comprehensive income	(263)	-
Total comprehensive income for the year	**3,761**	**142**

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Book value										
Balance at 1 January	**132,512**	**131,399**	**157,003**	**150,344**	**22,762**	**23,795**	**13,402**	**7,188**	**325,679**	**312,726**
Additions	15	158	880	560	76	140	8,496	15,211	9,467	16,069
Transfer to property, plant and equipment	9,880	956	8,307	8,003	1,474	38	(19,661)	(8,997)	-	-
Transfer from investment property	-	127	-	2	-	-	-	-	-	129
Effect from remeasurement	280	-	763	-	(111)	14	-	-	932	14
Disposals	(70)	(128)	(1,594)	(1,906)	(2,017)	(1,225)	-	-	(3,681)	(3,259)
Balance at 31 December	**142,617**	**132,512**	**165,359**	**157,003**	**22,184**	**22,762**	**2,237**	**13,402**	**332,397**	**325,679**
Accumulated depreciation										
Balance at 1 January	**18,647**	**14,806**	**78,195**	**70,972**	**16,894**	**15,892**	**-**	**-**	**113,736**	**101,670**
Depreciation charge for the year	3,851	3,841	8,433	8,495	1,503	2,086	-	-	13,787	14,422
Depreciation written-off	-	-	(1,483)	(1,272)	(1,611)	(1,084)	-	-	(3,094)	(2,356)
Effect from remeasurement	83	-	(1,127)	-	(314)	-	-	-	(1,358)	-
Balance at 31 December	**22,581**	**18,647**	**84,018**	**78,195**	**16,472**	**16,894**	**-**	**-**	**123,071**	**113,736**
Carrying amount at 31 December	**120,036**	**113,865**	**81,341**	**78,808**	**5,712**	**5,868**	**2,237**	**13,402**	**209,326**	**211,943**
Carrying amount at 1 January	**113,865**	**116,593**	**78,808**	**79,372**	**5,868**	**7,903**	**13,402**	**7,188**	**211,943**	**211,056**

As at 31 December 2016, Company's tangible fixed assets include: land amounting to BGN 34,621 thousand (31 December 2015: BGN 33,251 thousand) and buildings of carrying amount BGN 85,415 thousand (31 December 2015: BGN 80,614 thousand).

Tangible fixed assets in progress as at 31 December include:

- buildings reconstruction - BGN 1,316 thousand (31 December 2015: none);
- advances for the purchase of machinery and equipment – BGN 568 thousand (31 December 2015: BGN 3,188 thousand);
- expenses on new buildings construction – BGN 271 thousand (31 December 2015: BGN 10,132 thousand);
- other – BGN 82 thousand (31 December 2015: BGN 82 thousand).

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

- for a new tablet production facility at the amount of BGN 7,429 thousand (31 December 2015: BGN 8,056 thousand);
- for ampoule production at the amount of BGN 5,457 thousand (31 December 2015: BGN 5,861 thousand).

The amount of other assets as at 31 December 2016 includes also biological assets – Golden Chain

(Laburnum anagyroides) plantation at the amount of BGN 134 thousand (31 December 2015: BGN 131 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 5,669 thousand as at 31 December 2016 to related parties (31 December 2015: BGN 6,263 thousand). In addition, tangible fixed assets at carrying amount of BGN 246 thousand are leased to third parties as at 31 December 2016 (31 December 2015: BGN 228 thousand).

Finance lease

As at 31 December 2016, there are assets at the carrying amount of BGN 29 thousand acquired under finance lease contracts (31 December 2015: BGN 111 thousand).

Other data

The book value of fully depreciated tangible fixed assets, used in the Company's activities by group, is as follows:

- Buildings – BGN 278 thousand (31 December 2015: BGN 123 thousand);
- Plant and equipment – BGN 34,198 thousand (31 December 2015: BGN 34,576 thousand);
- Other – BGN 10,547 thousand. (31 December 2015: BGN 10,207 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 December 2016 in relation to received loans:

- Land and buildings with a carrying amount of BGN 22,415 thousand and BGN 58,159 thousand, respectively (31 December 2015: respectively, BGN 22,009 thousand and BGN 61,271 thousand) *(Note 29, Note 34 and Note 40);*
- Pledges on equipment – BGN 42,028 thousand (31 December 2015: BGN 38,316 thousand) *(Note 29, Note 34 and Note 40).*

Periodical fair value remeasurement

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

The effects of remeasurement are stated as follows:

	Land and buildings	***Plant and equipment***	***Other***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Fair value remeasurement as at 31 December, carried to the statement of comprehensive income (within profit or loss for the year) *(Note 4 and Note 10)*	(13)	(283)	(43)	(339)
Fair value remeasurement, carried to the statement of comprehensive income (within other comprehensive income) *(Note 14)*	210	2,173	246	2,629
Total	**197**	**1,890**	**203**	**2,290**

(a) Fair value hierarchy

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

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

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

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

Group of assets	***Level 2***	***Level 3***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Agricultural land plots	-	*10,965*	*10,965*
Zoned land plots	*20,024*	*3,632*	*23,656*
Buildings	-	*85,415*	*85,415*
Total land and buildings	**20,024**	**100,012**	**120,036**
Plant and equipment	**-**	**81,341**	**81,341**
Biological assets	-	*134*	*134*
Other assets	-	*5,578*	*5,578*
Total other assets	**-**	**5,712**	**5,712**
Total	**20,024**	**187,065**	**207,089**

(b) Valuation methods and techniques and significant unobservable inputs

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

Groups of assets Level 2	**Valuation approaches and techniques**	**Significant unobservable inputs**
Zoned land plots	*Market approach* Valuation technique: Market comparables method – market prices of identical and similar properties in location and designation	* Discount factor * Transaction costs *Adjusted market prices to reflect the specifics of the values property location, area, term to entrance into deal, rate of return.*

Groups of assets Level 3	**Valuation approaches and techniques**	**Significant unobservable inputs and quantitative parameters**
Agricultural land plots	*a. Market approach* Valuation technique: Method of market comparisons of agricultural land deals in the regions of the land valued *b. Income approach* Capitalised rental income	* Average data for offer prices and rentals of agricultural land from specialised Internet by regions – areas, municipalities, districts (zemi.bg, nivi.bg, etc.); * Average prices of agricultural land and rentals by region as per NSI data; * Price index of agricultural land: – 1.35% as per NSI data; * Price index of rentals for agricultural land: 2.89% as per NSI data; * Term to entrance into deals (rent and/or sale) with agricultural land – from 6 to 12 months (accepted 9 months as average); * Weight ratio between the methods used – 40% for the method of market comparisons and 60% for the capitalised rental income, due to assessed higher reliability of the comparative data on rent. *Adjusted market prices to reflect the specifics of the valued property location, area, term to entrance into deal, rate of return.*
Zoned land plots	*Market approach* Valuation technique: Market comparables method – market prices of identical and similar properties in location and designation	* Term to entrance into the deal – from 12 to 18 months * Prices index of immovable properties with production, storage and servicing purpose: – 1.20% *Adjusted market prices to reflect the specifics of the valued property location, area, term to entrance into deal, rate of return.*
Buildings	*Cost approach* Valuation technique: Method based on the costs for asset creation or replacement - depreciated replacement cost method on the basis of combined application of the following techniques: 1) Determine depreciated replacement cost on the basis of indexed historical cost of the asset; 2) Determine depreciated replacement cost on the basis of current expenses on creation or replacement.	* Inflation price index depending on the period between the time of placing the asset in service and the current time of valuation * Price index in the construction sector: 1.44% as per NSI data * Market price index of production, storage and servicing facilities: –1.20% * Weight ratio of the techniques used individually for each asset in line with the assessment of the reliability of the used inputs and the specific features of the asset *Adjusted prices for construction of identical projects and purchase prices of comparable items*
Plant, equipment and other assets	*Cost approach* Valuation technique: Method based on the costs for asset creation or replacement - depreciated replacement cost method Valuation technique: Determine depreciated replacement cost on the basis of indexed historical cost of the asset or adjusted comparable amount based on market comparables.	* Inflation price index as per Eurostat data depending on the period between the time of placing the asset in service and the current time of valuation; *Adjusted prices for construction of identical projects and purchase prices of analogues of the respective type of machinery and equipment.*

16. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Book value										
Balance at 1 January	**768**	**768**	**1,474**	**1,869**	**3,734**	**4,180**	**57**	**131**	**6,033**	**6,948**
Additions	-	-	78	49	63	4	1	21	142	74
Transfer	-	-	-	-	22	-	(22)	-	-	-
Allowance for impairment	-	-	(61)	-	-	-	-	-	(61)	-
Disposals	-	-	(208)	(444)		(450)	(11)	(95)	(219)	(989)
Balance at 31 December	**768**	**768**	**1,283**	**1,474**	**3,819**	**3,734**	**25**	**57**	**5,895**	**6,033**
Accumulated amortisation										
Balance at 1 January	-	-	**1,185**	**1,216**	**2,341**	**2,522**	-	-	**3,526**	**3,738**
Amortisation charge for the year	-	-	133	191	208	269	-	-	341	460
Amortisation written-off	-	-	(149)	(222)		(450)	-	-	(149)	(672)
Balance at 31 December	-	-	**1,169**	**1,185**	**2,549**	**2,341**	-	-	**3,718**	**3,526**
Carrying amount at 31 December	**768**	**768**	**114**	**289**	**1,270**	**1,393**	**25**	**57**	**2,177**	**2,507**
Carrying amount at 1 January	**768**	**768**	**289**	**653**	**1,393**	**1,658**	**57**	**131**	**2,507**	**3,210**

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 25 thousand (31 December 2015: BGN 36 thousand);
- expenses on acquisition of software – none (31 December 2015: BGN 21 thousand).

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

- rights on intellectual property (products of development activities) – BGN 909 thousand (31 December 2015: BGN 764 thousand);
- software – BGN 1,737 thousand. (31 December 2015: BGN 1,412 thousand).
- other – BGN 7 thousand (31 December 2015: BGN 7 thousand).

17. INVESTMENT PROPERTY

	31.12.2016 BGN '000	***31.12.2015 BGN '000***
Balance at 1 January	**22,160**	**22,368**
Additions	913	-
Net loss on fair value adjustment, included in profit or loss	(233)	(79)
Transfer to property, plant and equipment	-	(129)
Balance at 31 December	**22,840**	**22,160**

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	***31.12.2016 BGN '000***	***31.12.2015 BGN '000***
Warehouse premises	18,671	18,380
Offices	2,342	2,331
Production buildings	1,032	1,056
Social objects	407	393
Investment property in progress	388	-
Total	**22,840**	**22,160**

There are established encumbrances as at 31 December 2016 on investment property as follows:

- mortgage of warehouse premises – BGN 8,226 thousand (31 December 2015: BGN 9,308 thousand) *(Note 34 and Note 40);*
- pledges on attached equipment – BGN 5,730 thousand (31 December 2015: BGN 5,912 thousand) *(Note 34)*.

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 (annual) and is due to the application of the fair value model under IAS 40. It is performed regularly at the end of each reporting period. Fair value is determined with the assistance of independent certified appraisers.

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

	Warehouse premises	*Offices*	*Production buildings*	*Social objects*	*Assets in progress*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance at 1 January 2015	**18,498**	**2,310**	**1,140**	**420**	**-**	**22,368**
Transfer to property, plant and equipment	-	-	(129)	-	-	(129)
Net change in fair value through profit or loss – unrealised	(118)	21	45	(27)	-	(79)
Balance at 31 December 2015	**18,380**	**2,331**	**1,056**	**393**	**-**	**22,160**
Additions	525	-	-	-	388	913
Net change in fair value through profit or loss – unrealised	(234)	11	(24)	14	-	(233)
Balance at 31 December 2016	**18,671**	**2,342**	**1,032**	**407**	**388**	**22,840**

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 to entrance into rental deals
	b. Cost approach Valuation technique: Method based on the costs of construction or replacement – depreciated replacement cost (supportive valuation technique)	* Adjusted prices for construction of identical properties and purchase prices of analogues of the respective type of machinery and equipment
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 to entrance into rental deals

Key assumptions used in the calculation of the fair value of investment properties as at 31/12/2016:

- rate of return – from 4.06 % to 7.91 %;
- term to entrance into rental deals – from 3 to 12 months;

As a result of the calculations made in 2016, necessity was established for recognition of losses, net of the gains on remeasurement to fair value at the amount of BGN 233 thousand (2015: BGN 79 thousand) *(Note 4).*

18. INVESTMENTS IN SUBSIDIARIES

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

		31.12.2016 BGN '000	*Interest %*	*31.12.2015 BGN '000*	*Interest %*
Medica AD	Bulgaria	32,874	97.96	21,832	66.72
Sopharma Trading AD	Bulgaria	29,096	72.14	28,557	71.85
Unipharm AD	Bulgaria	26,749	77.88	19,448	49.99
Briz SIA	Latvia	22,270	66.13	22,270	66.13
Sopharma Ukraine EOOD	Ukraine	11,783	100.00	16,991	100.00
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Veta Pharma AD	Bulgaria	6,549	68.05	-	-
Momina Krepost AD	Bulgaria	4,874	93.54	4,833	92.78
Vitamina AD	Ukraine	1,980	99.56	1,980	99.56
Pharmalogistica AD	Bulgaria	1,190	84.93	1,058	78.37
Sopharma Buildings REIT	Bulgaria	568	40.39	573	40.75
TOO Sopharma Kazakhstan, Kazakhstan	Kazakhstan	502	100.00	502	100.00
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Phyto Palauzovo AD	Bulgaria	57	95.00	25	95.00
Ivančić and Sinovi d.o.o.	Serbia	-	-	5,739	51.00
Total		**147,583**		**132,899**	

As at 31 December 2016, the composition of investments in the subsidiaries includes the investment in Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31 December 2015: fully impaired investment in Sopharma Poland OOD – in liquidation, Poland).

Sopharma AD exercises a direct control on the above-mentioned companies.

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

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- Sopharma Poland OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.

- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- Ivančić and Sinovi d.o.o. – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 10 April 2008. On 9 May 2016, the Company sold its total investment in Ivančić and Sinovi d.o.o.
- Sopharma Buildings REIT – Scope of activities: investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale. Date of acquisition – 4 August 2008.
- Briz OOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- 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.
- Phyto Palauzovo AD – Scope of activities: production, collection of crops and trade in herbs and medicinal plants. Date of acquisition (as from the merger of a subsidiary) – 1 January 2014.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 30 September 2014.
- Medica AD – Scope of activities: production of dressing materials, sanitary and hygiene articles and finished medicinal products. Date of acquisition – 26 October 2015.
- Veta Pharma AD – Scope of activities: production of medicinal, non-medicinal and other products. Date of acquisition – 11 November 2016.

The shares of Sopharma Trading AD are traded on the stock exchange, the average monthly price of realised transactions for December 2016 being BGN 6.14 per share (December 2015: BGN 5.29 thousand).
The net earnings per share based on net assets for 2016 are BGN 10.00 (2015: BGN 2.00).
The shares of Momina Krepost AD are traded on the stock exchange, the average monthly price of realised transactions for December 2016 being BGN 3.41 per share (December 2015: BGN 2.12).
The net earnings per share based on accounting net assets for 2016 are BGN 2.97 (2015: BGN 2.82).

The shares of Sopharma Buildings REIT are traded on the stock exchange at a limited volumes with no deals realised in December 2016 (December 2015: no deals). The net earnings per share based on accounting net assets for 2016 are BGN 2.08 (2015: BGN 2.16).

The shares of Unipharm AD are traded on the stock exchange, the average monthly price of realised transactions for December 2016 being BGN 4.35 per share (December 2015: BGN 3.83). The net earnings per share based on accounting net assets for 2016 are BGN 2.85 (2015: BGN 2.95).

The shares of Medica AD are traded on the stock exchange, the average monthly price of realised transactions for December 2016 being BGN 3.40 per share (December 2015: no deals). The net earnings per share based on accounting net assets for 2016 are BGN 2.99 (2015: BGN 2.90).

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
Acquisition cost	***31.12.2016 BGN '000***	***31.12.2015 BGN '000***
Balance at 1 January	**158,998**	**110,630**
Additional interest acquired	19,057	2,235
New interest acquired	6,549	-
Acquired through capital increase	48	24,326
Interest sold with loss of control	(5,739)	-
Interest sold without loss of control	(7)	(25)
Transfer from associates	-	21,832
Balance at 31 December	**178,906**	**158,998**
Impairment charged		
Balance at 1 January	**26,099**	**16,196**
Impairment charged	5,224	9,903
Balance at 31 December	**31,323**	**26,099**
Carrying amount at 31 December	**147,583**	**132,899**
Carrying amount at 1 January	**132,899**	**94,434**

Impairment of investments in subsidiaries

At each reporting date, the management makes an analysis and 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%) and/or termination of activities of the investee; loss of markets, clients or technological problems, reporting of losses for a longer period of time (over three years), reporting of negative net assets or assets below the registered share capital, trends of deterioration of main financial ratios as well as a decrease in market capitalisation. 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 as at 31 December 2016 are as follows:

- growth rate – from 0 % to 21.6 %;
- growth after the projected period upon calculation of terminal value – 1.8 to 5%;
- interest rate (cost of debt) – from 2.3 % to 16.5 %;
- discount rate (based on WACC) – from 5.6 % to 22.5 %.

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. The calculations are performed with the assistance of an independent certified appraiser.

As a result of the calculations, made in 2016, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 5,224 thousand was necessary (2015: BGN 8,567 thousand) *(Note 10).*

19. INVESTMENTS IN ASSOCIATES

As at 31 December 2016, the carrying amount of the investments in associates is BGN 5,219 thousand and includes interest at the rate of 30.22% of the capital of Doverie Obedinen Holding AD.

The principal activities of Doverie Obedinen Holding AD include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities.

On 21 December 2016, Sopharma AD acquired 2,871,011 shares of Doverie Obedinen Holding AD and as a result the latter was transformed from an available-for-sale investment into an investment in associate.

The movement of investments in associates is presented below:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Balance at 1 January	**-**	**7,015**
Acquisition of shares	3,117	14,818
Transfer from available-for-sale investments *(Level 3)*	2,102	-
Sale of shares	-	(1)
Transfer to subsidiaries	-	(21,832)
Carrying amount at 31 December	**5,219**	**-**

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 assessments 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.

In 2016, there was no need to recognise impairment of the investments in associates.

20. AVAILABLE-FOR-SALE INVESTMENTS

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

	31.12.2016 BGN '000	*Interest %*	*31.12.2015 BGN '000*	*Interest %*
Lavena AD	2,883	11.29	1,296	9.12
Olainfarm AD - Latvia	1,796	0.77	1,553	0.77
Achieve Life Science Inc. – USA	290	4.70	290	4.70
Hydroizomat AD	131	10.67	132	10.65
BTF Expat Bulgaria	82	0.32	-	-
Todorov AD	37	4.98	22	4.74
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Doverie Obedinen Holding AD	-	-	2,102	14.90
Elana Agrocredit AD	-	-	67	1.26
Sopharma Properties REIT	-	-	37	0.05
Chimimport AD	-	-	1	0.00003
Total	**5,229**		**5,510**	

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

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

Available-for-sale investments		*31.12.2016*			*31.12.2015*	
	Number of shares	*Fair value per share BGN*	*Fair value as per the statement of financial position BGN '000*	*Number of shares*	*Fair value per share BGN*	*Fair value as per the statement of financial position BGN '000*
Lavena AD	30,100	95.78	2,883	24,309	53.31	1,296
Olainfarm AD - Latvia	108,500	16.55	1,796	108,500	14.31	1,553
Hydroizomat AD	318,889	0.41	131	318,301	0.41	132
BTF Expat Bulgaria	74,550	1.10	82	-	-	-
Todorov AD	169,468	0.22	37	161,014	0.14	22
Doverie Obedinen Holding AD	-	-	-	2,791,352	0.75	2,102
Elana Agrocredit AD	-	-	-	64,350	1.03	67
Sopharma Properties REIT	-	-	-	8,695	4.28	37
Chimimport AD	-	-	-	1,000	1.38	1
Total			**4,929**			**5,210**

The investments in Ecobulpack AD, UniCredit Bulbank AD and Achieve Life Science Inc., USA, 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

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)	***Fair value***	***Level 1***	***Level 2***	***Level 3***
	31.12.2016			
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Lavena AD	2,883	-	2,883	-
Olainfarm AD - Latvia	1,796	1,796	-	-
Hydroizomat AD	131	131	-	-
Expat Bulgaria	82	82	-	-
Todorov AD	37	37	-	-
Total	**4,929**	**2,046**	**2,883**	**-**

Available-for-sale financial investments (shares)	***Fair value***	***Level 1***	***Level 2***	***Level 3***
	31.12.2015			
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Doverie Obedinen Holding AD	2,102	-	-	2,102
Olainfarm AD - Latvia	1,553	1,553	-	-
Lavena AD	1,296	-	1,296	-
Hydroizomat AD	132	-	132	-
Elana Agrocredit AD	67	67	-	-
Sopharma Properties REIT	37	37	-	-
Todorov AD	22	22	-	-
Chimimport AD	1	1	-	-
Total	**5,210**	**1,680**	**1,428**	**2,102**

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 1***	***Level 2***	***Level 3***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Balance at 1 January 2015	**1,384**	**1,209**	**1,836**	**4,429**
Purchases	106	94	894	1,094
Issue of shares	68	-	-	68
Sales	(180)	(3)	-	(183)
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securities*	7	-	-	7
Unrealised loss included in the current profit and loss for the year *(Note 12)*	(4)	(70)	(324)	(398)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 14)*	299	198	(304)	193
Balance at 31 December 2015	**1,680**	**1,428**	**2,102**	**5,210**
Purchases	461	328	-	789
Issue of shares	230	-	-	230
Sales	(731)	(3)	-	(734)
Transfer to investments in associates *(Note 19)*	-	-	(2,102)	(2,102)
Transfer from Level 2 to Level 1	132	(132)	-	-
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securities*	23	2	-	25
Unrealised loss included in the current profit and loss for the year *(Note 12)*	(2)	(2)	-	(4)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 14)*	253	1,262	-	1,515
Balance at 31 December 2013	**2,046**	**2,883**	**-**	**4,929**

Valuation techniques and approaches

The market comparables approach was applied in the Level 2 fair value measurements.The valuation technique was based on the trading multiples method.

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Long-term loans granted	10,780	20,213
Long-term rental deposit granted	231	292
Total	**11,011**	**20,505**

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

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Associate company (31 December 2015: a company related through key managing personnel)	9,797	13,074
Subsidiary company	983	-
Company related through key managing personnel	-	7,139
Total	**10,780**	**20,213**

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2016*		*31.12.2015*	
	'000			*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
					including interest		*including interest*
EUR	16,177	01.12.2018	3.50%	*9,797*	*48*	*13,074*	*18*
EUR	500	01.03.2019	6.60%	*983*	*5*	*-*	*-*
EUR	3,272	01.12.2018	5.00%	*-*	*-*	*7,139*	*739*
				10,780	***53***	***20,213***	***757***

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

The long-term deposit receivable is from a company related through a main shareholder under a concluded rental contract for administrative offices with valid until 1 August 2022.

22. OTHER LONG-TERM RECEIVABLES

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Receivables under transactions in securities	3,389	3,257
Receivables on sales of non-current assets	325	-
Total	**3,714**	**3,257**

The receivables under transactions in securities represent receivables under a sold investment in a subsidiary with deferred payment until the completion of regulatory actions for registration of permits for medicinal products at the amount of BGN 3,389 thousand and expected maturity on 31 December 2018 (31 December 2015: BGN 3,257 thousand).

The receivables on sales of non-current assets under deferred payment terms at the amount of BGN 325 thousand mature on 10 April 2021 (31 December 2015: none).

23. INVENTORIES

Company's *inventories* include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Materials	24,879	27,868
Finished products	15,925	22,841
Semi-finished products	10,339	5,262
Work in progress	5,401	5,255
Goods	263	475
Total	**56,807**	**61,701**

Materials by type are as follows:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Basic materials	23,822	24,864
Technical materials	459	469
Materials in transit	223	2,151
Spare parts	215	218
Auxiliary materials	113	120
Other	47	46
Total	**24,879**	**27,868**

Basic materials by type are as follows:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Substances	12,497	13,924
Chemicals	3,419	4,154
Packaging materials	2,383	1,675
Herbs	2,276	999
Ampoules	1,471	2,063
PVC and aluminium foil	999	1,254
Tubes	585	606
Vials	192	189
Total	**23,822**	**24,864**

Finished products existing at 31 December include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Tablet dosage forms	10,556	15,482
Ampoule dosage forms	2,323	2,916
Ointments	1,499	951
Syrups	929	2,535
Lyophilic products	239	122
Suppositories	199	114
Drops	101	387
Inhalation products	79	334
Total	**15,925**	**22,841**

Pledges were established on Company's inventories with carrying amount of BGN 24,425 thousand as at 31 December 2016 as collateral to bank loans received (31 December 2015: BGN 31,341 thousand) *(Note 34 and Note 40).*

24. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Receivables from subsidiaries	*62,886*	*59,515*
Impairment of uncollectable receivables	*(3,243)*	*(3,025)*
	59,643	56,490
Receivables from companies related through key managing personnel	11,593	21,545
Impairment of uncollectable receivables	(269)	-
	11,324	21,545
Receivables from other related parties	96	-
Receivables from companies related through a main shareholder	13	-
Total	**71,076**	**78,035**

The receivables from related parties by type are as follows:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Receivables on sales of finished products and materials	53,162	50,847
Impairment of uncollectable receivables	*(1,134)*	*(1,062)*
	52,028	49,785
Trade loans granted	21,426	30,213
Impairment of uncollectable receivables	*(2,378)*	*(1,963)*
	19,048	28,250
Total	**71,076**	**78,035**

The receivables on sales are interest-free and BGN 37,813 thousand of them are denominated in BGN (31 December 2015: BGN 28,364 thousand) and in EUR – BGN 14,215 thousand (31 December 2015: BGN 21,421 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 37,788 thousand as at 31 December 2016 or 72.63 % of all receivables on sales of finished products and materials to related parties (31 December 2015: BGN 27,103 thousand – 54,44 %).

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:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
up to 30 days	5,859	9,368
from 31 to 90 days	23,297	22,850
from 91 to 180 days	18,889	7,269
from 181 to 240 days	862	838
from 241 to 365 days	1,639	1,372
Total	**50,546**	**41,697**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
up to 90 days	25	7
from 91 to 180 days	-	1,636
from 181 to 365 days	-	809
over 365 days	-	4,419
Total	**25**	**6,871**

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 on 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:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
From 91 to 180 days	429	76
from 180 to 365 days	528	1,382
over 365 days	1,634	821
Allowance for impairment	(1,134)	(1,062)
Total	**1,457**	**1,217**

The past due receivables are partially impaired 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:

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**1,062**	**2,278**
Impairment charge	288	120
Reversed impairment	(216)	-
Transfer to impairment of investments in subsidiaries	-	(1,336)
Balance at 31 December	**1,134**	**1,062**

Special pledges have been established as at 31 December 2016 on receivables from related parties at the amount of BGN 18,229 thousand as collateral under bank loans received (31 December 2015: BGN 18,229 thousand) *(Note 34)*.

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Receivables from companies related through key managing personnel	11,593	21,545
Impairment of commercial loans	*(269)*	-
	11,324	21,545
Subsidiaries	*9,737*	*8,668*
Impairment of commercial loans	*(2,109)*	*(1,963)*
	7,628	6,705
Other related parties	96	-
Total	**19,048**	**28,250**

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

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**1,963**	**8**
Impairment charge	415	1,955
Balance at 31 December	**2,378**	**1,963**

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

Currency	***Contracted amount '000***	***Maturity***	***Interest %***	***31.12.2016***		***31.12.2015***	
				BGN '000	***BGN '000 including interest***	***BGN '000***	***BGN '000 including interest***
to companies related through key managing personnel							
EUR	8,133	31.12.2017	4.10%	*6,292*	*5*	*7,982*	*146*
BGN	6,000	31.12.2017	3.50%	*4,472*	*72*	*4,636*	*1*
EUR	12,731	31.12.2017	3.05%	*560*	*1*	*8,310*	*26*
BGN	190	31.12.2017	3.50%	-	-	*114*	-
BGN	1,300	31.12.2017	5.50%	-	-	*503*	*42*
to subsidiaries							
EUR	2,770	31.12.2017	4.70%	*4,957*	-	*5,087*	-
BGN	7,667	31.12.2017	4.10%	*2,670*	*66*	*1,568*	*42*
BGN	600	31.12.2017	3.50%	*1*	-	*50*	-
to other related parties							
BGN	190	31.12.2017	3.50%	*96*	-	-	-
				19,048	***144***	**28,250**	***257***

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

25. TRADE RECEIVABLES

Trade receivables include:

	31.12.2016	*31.12.2015*
	BGN '000	***BGN '000***
Receivables from clients	21,485	21,185
Impairment of uncollectable receivables	(173)	(631)
	21,312	20,554
Advances granted	1,167	912
Total	**22,479**	**21,466**

The *receivables from clients* are interest-free and BGN 377 thousand of them are denominated in BGN (31 December 2015: BGN 498 thousand), in EUR – BGN 19,468 thousand (31 December 2015: BGN 18,551 thousand), in USD – BGN 1,467 thousand (31 December 2015: BGN 1,505 thousand), and in PLN – none (31 December 2015: none)

One main counterpart of the Company is accountable for about 78.60 % of the receivables from clients (2015: one main counterpart accountable for 81.67%).

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 21,312 thousand were established at 31 December 2016 as collateral to bank loans received (31 December 2015: BGN 20,554 thousand).

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

	31.12.2016	*31.12.2015*
	BGN '000	***BGN '000***
up to 30 days	11,518	10,963
from 31 to 90 days	7,973	8,371
from 91 to 180 days	149	168
Total	**19,640**	**19,502**

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

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
up to 90 days	807	467
from 91 to 180 days	125	215
from 181 to 365 days	580	370
Total	**1,512**	**1,052**

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

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
up to 90 days	51	13
from 91 to 180 days	1	9
from 181 to 365 days	73	61
over 365 days	208	548
Allowance for impairment	(173)	(631)
Total	**160**	**-**

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

	2016	*2015*
	BGN '000	*BGN '000*
Balance at 1 January	**631**	**1,003**
Impairment charge	148	105
Amounts written-off as uncollectable	(244)	(3)
Reversed impairment	(362)	(474)
Balance at 31 December	**173**	**631**

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

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Services	602	304
Inventories	565	608
Total	**1,167**	**912**

The *advances granted* are regular. They include: in BGN – BGN 1,097 thousand (31 December 2015: BGN 550 thousand), in EUR – BGN 70 thousand (31 December 2015: BGN 100 thousand) and in other currency – none (31 December 2015: BGN 262 thousand).

26(A). LOANS GRANTED TO THIRD PARTIES

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

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

Currency	*Contracted amount*	*Maturity*	*Interestн %*	*31.12.2016*		*31.12.2015*	
	'000			*BGN'000*	*BGN'000 including interest*	*BGN'000*	*BGN'000 including interest*
BGN	1,873	31.12.2017	4.30%	*1,769*	*-*	*1,570*	*94*
BGN	949	31.12.2017	4.70%	*546*	*3*	*911*	*6*
BGN	412	31.12.2017	4.50%	*130*	*-*	*-*	*-*
				2,445	**3**	**2,481**	**100**

26(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2016	*31.12.2015*
	BGN '000	***BGN '000***
Taxes refundable	3,629	3,104
Prepayments	879	849
Receivables on deposits placed as guarantees	189	236
Amounts granted to an investment intermediary	81	199
Court and awarded receivables	*2,163*	*2,151*
Impairment of court receivables	*(2,163)*	*(2,151)*
	-	-
Other	81	12
Total	**4,859**	**4,440**

Taxes refundable include:

	31.12.2016	*31.12.2015*
	BGN '000	***BGN '000***
Excise duties	2,712	2,616
Corporate tax	475	430
Value added tax	442	58
Total	**3,629**	**3,104**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.12.2016***		***31.12.2015***	
	'000			***BGN '000***	***BGN '000 including interest***	***BGN '000***	***BGN '000 including interest***
BGN	1,873	31.12.2017	4.30%	*1,769*	-	*1,570*	*94*
BGN	949	31.12.2017	4.70%	*546*	*3*	*911*	*6*
BGN	412	31.12.2017	4.50%	*130*	-	-	-
				2,445	**3**	**2,481**	**100**

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

Prepayments include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Insurance	369	396
Subscriptions	362	353
Licence and patent fees	38	35
Rentals	37	12
Vouchers	11	4
Other	62	49
Total	**879**	**849**

Deposits placed as guarantees include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Guarantees under contracts for fuel supply	86	86
Guarantees under construction contracts	66	88
Guarantees under contracts for supply of non-current assets	19	-
Guarantees under rental contracts	12	12
Guarantees under communication service contracts	-	34
Other	6	16
Total	**189**	**236**

27. CASH AND CASH EQUIVALENTS

Cash includes:

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Cash at current bank accounts	*4,423*	*3,845*
Impairment of cash at current bank accounts	*(172)*	*(165)*
Cash at current bank accounts	4,251	3,680
Cash in hand	85	56
Blocked cash under issued bank guarantees	7	9
Total	**4,343**	**3,745**

Cash structure at current bank accounts is as follows: in BGN: BGN 3,927 thousand (31 December 2015: BGN 2,124 thousand), in EUR – BGN 275 thousand (31 December 2015: BGN 597 thousand), in USD – BGN 38 thousand (31 December 2015: BGN 799 thousand) and in other currency – BGN 11 thousand (31 December 2015: BGN 160 thousand).

The achieved average interest rate is from 0.01 % to 0.02 % (31 December 2015: from 0.01 % to 0.07%).
Cash in hand includes: in BGN: BGN 73 thousand (31 December 2015: BGN 47 thousand) and in other currency – BGN 12 thousand (31 December 2015: BGN 9 thousand).

28. EQUITY

Share capital

As at 31 December 2016, the registered share capital of Sopharma AD amounted to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

Ordinary shares issued and fully paid	*Shares*	*Share capital net of treasury shares*
	number	*BGN '000*
Balance at 1 January 2015	**126,885,870**	**114,797**
Effects of a subsidiary merger	2,797,899	2,798
Treasury shares	(105,166)	(392)
Expense on treasury shares	-	(2)
Balance at 31 December 2015	**129,578,603**	**117,201**
Balance at 1 January 2016	**129,578,603**	**117,201**
Treasury shares sold	300	1
Treasury shares	(443,418)	(1,207)
Expense on treasury shares	-	(6)
Balance at 31 December 2016	**129,135,485**	**115,989**

On 1 January 2015, by virtue of a concluded contract, a restructuring was made through a merger of a subsidiary into Sopharma AD. As a result of the merger, the share capital of Sopharma AD was increased by 2,797,899 new shares with nominal value of BGN 1 each and issue value of BGN 4.14 equal to the fair price of 1 share of Sopharma AD.

The table below presents the paid joint-stock capital of the Company at 31 December:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Share capital (registered), nominal	134,798	134,798
Share premium	8,785	8,785
Total paid capital	**143,583**	**143,583**

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

The ***treasury shares*** were 5,662,416 at the amount of BGN 18,809 thousand as at 31 December 2016 (31 December 2015: 5,219,296 shares at the amount of BGN 17,597 thousand). The number of shares purchased in the current year was 443,418 (2015: 105,166 shares) and the number of shares sold was 300 (2015: none).

As at 31 December 2016, Company's shares ***held by its subsidiaries*** were as follows:

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

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Statutory reserves	47,841	45,256
Property, plant and equipment revaluation reserve	24,171	22,286
Available-for-sale financial assets reserve	2,805	1,290
Additional reserves	229,586	215,395
Total	**304,403**	**284,227**

Statutory reserves at the amount of BGN 47,841 thousand (31 December 2015: BGN 45,256 thousand) represent the Reserve Fund, which is set aside under a requirement of the Commercial Act and Company's Articles of Association, and includes two components: (a) amounts from distribution of profit for the Reserve Fund – BGN 39,056 thousand (31 December 2015: BGN 36,471 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of a subsidiary into Sopharma AD – BGN 8,785 thousand (31 December 2015: BGN 8,785 thousand)

The movements of statutory reserves were as follows:

	2016	*2015*
	BGN '000	*BGN '000*
Balance at 1 January	**45,256**	**33,555**
Distribution of profit	2,585	2,916
Share premium on a subsidiary merger	-	8,785
Balance at 31 December	**47,841**	**45,256**

The ***property, plant and equipment revaluation reserve***, amounting to BGN 24,171 thousand (31 December 2015: BGN 22,286 thousand), is set aside from the surplus between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

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

	2016	*2015*
	BGN '000	*BGN '000*
Balance at 1 January	**22,286**	**22,434**
Revaluation of property, plant and equipment	2,629	-
Deferred tax relating to revaluations	(263)	-
Transfer to retained earnings	(481)	(492)
Effects of a subsidiary merger	-	344
Balance at 31 December	**24,171**	**22,286**

The ***available-for-sale financial assets reserve***, amounting to BGN 2,805 thousand (31 December 2015: BGN 1,290 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:

	2016	*2015*
	BGN '000	*BGN '000*
Balance at 1 January	**1,290**	**1,097**
Net gain arising on revaluation of available-for-sale financial assets	1,522	485
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	(7)	(292)
Balance at 31 December	**2,805**	**1,290**

Additional reserves at the amount of BGN 229,586 thousand (31 December 2015: BGN 215,395 thousand) are set aside from distribution of profits under a decision of shareholders and can be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves are as follows:

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**215,395**	**189,157**
Distributed profit in the year	14,191	26,238
Balance at 31 December	**229,586**	**215,395**

Retained earnings amount to BGN 42,483 thousand as at 31 December 2016 (31 December 2015: BGN 30,198 thousand

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

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**30,198**	**45,484**
Net profit for the year	37,770	25,354
Transfer from property, plant and equipment revaluation reserve	481	492
Distribution of profit to reserves	(16,776)	(29,154)
Distribution of profit for dividends	(9,070)	-
Actuarial losses from remeasurements	(120)	(51)
Effects of a subsidiary merger	-	(11,927)
Balance at 31 December	**42,483**	**30,198**

Net earnings per share

	2016	***2015***
Weighted average number of shares	129,393,992	129,379,961
Net profit for the year (BGN '000)	37,770	25,354
Net earnings per share (BGN)	**0,29**	**0,20**

29. LONG-TERM BANK LOANS

				31.12.2016			*31.12.2015*	
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	23,844	7,185	**31,029**	30,819	7,380	**38,199**
			23,844	**7,185**	**31,029**	**30,819**	**7,380**	**38,199**

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of up to 2.2 points but not less than 2.2 points (2015: three-month EURIBOR plus a mark-up of up to 2.8 points but not less than 2.8 points).

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

- Mortgages of real estate with a carrying amount of BGN 42,590 thousand as at 31 December 2016 (31 December 2015: BGN 44,285 thousand) (*Note 15*);
- Special pledges on machinery and equipment with a carrying amount of BGN 18,724 thousand as at 31 December 2016 (31 December 2015: BGN 20,027 thousand) *(Note 15).*

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

30. DEFERRED TAX LIABILITIES

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

Deferred tax (liabilities)/ assets	*temporary difference*	*tax*	*temporary difference*	*tax*
	31.12.2016	***31.12.2016***	***31.12.2015***	***31.12.2015***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	69,664	6,966	59,808	5,981
including revaluation reserve	*23,021*	*2,302*	*20,926*	*2,093*
Investment property	5,146	515	4,585	459
including revaluation reserve	*187*	*19*	*187*	*19*
Biological assets	14	1	10	1
Total deferred tax liabilities	**74,824**	**7,482**	**64,403**	**6,441**
Receivables	(6,638)	(664)	(6,254)	(625)
Payables to personnel	(5,590)	(559)	(5,000)	(500)
Inventories	(3,948)	(395)	(3,796)	(380)
Intangible assets	(1,184)	(118)	(1,794)	(179)
Accrued liabilities	(263)	(26)	(424)	(42)
Cash	(172)	(17)	(165)	(17)
Total deferred tax assets	**(17,795)**	**(1,779)**	**(17,433)**	**(1,744)**
Deferred income tax liabilities, net	**57,029**	**5,703**	**46,970**	**4,697**

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

The change in the balance of deferred taxes for 2016 is as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2016*	*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 2016*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(5,981)	(746)	(263)	24	(6,966)
Investment property	(459)	(56)	-	-	(515)
Biological assets	(1)	-	-	-	(1)
Receivables	625	39	-	-	664
Payables to personnel	500	59	-	-	559
Inventories	380	15	-	-	395
Intangible assets	179	(61)	-	-	118
Accrued liabilities	42	(16)	-	-	26
Cash	17	-	-	-	17
Total	**(4,697)**	**(767)**	**(263)**	**24**	**(5,703)**

The change in the balance of deferred taxes for 2015 was as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2015*	*Recognised in the statement of comprehensive income*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(5,454)	(588)	61	(5,981)
Investment property	(379)	(80)	-	(459)
Biological assets	-	(1)	-	(1)
Receivables	555	70	-	625
Payables to personnel	449	51	-	500
Inventories	355	24	-	380
Intangible assets	275	(96)	-	179
Accrued liabilities	73	(31)	-	42
Cash	-	17	-	17
Total	**(4,125)**	**(633)**	**61**	**(4,697)**

31. GOVERNMENT GRANTS

The government grants are under concluded contracts with the Bulgarian Small and Medium Enterprises Promotion Agency for gratuitous financial aid under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013.

The table below presents the non-current and the current portion of the grants received by type:

	31.12.2016			*31.12.2015*		
	Non-current portion	*Current portion*	*Total*	*Non-current portion*	*Current portion*	*Total*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Acquisition of machinery and equipment for a new tablets production line	2,996	179	**3,175**	3,181	177	**3,358**
Implementation of innovative products in the production of ampoule dosage forms	2,500	200	**2,620**	2,700	200	**2,900**
Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	370	120	**570**	490	120	**610**
	5,866	**499**	**6,365**	**6,371**	**497**	**6,868**

The current portion of the financing will be recognised as current income over the following 12 months from the date of the separate statement of financial position and presented as 'other current liabilities' (*Note 39).*

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Long-term retirement benefit obligations	2,458	2,277
Long-term benefit obligations for tantieme	191	149
Total	**2,649**	**2,426**

Long-term retirement benefit obligations

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

In accordance with the Labour Code in Bulgaria, every employee is entitled to an indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for for the same employer during the last 10 years of their service the indemnity amounts to six gross monthly salaries at the time of retirement. This is a defined benefits plan *(Note 2.22*).

For the purpose of establishing the amount of these obligations to personnel, the Company has assigned an actuarial valuation as at 31 December 2016 by using the services of a certified actuary.

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

	2016	***2015***
	BGN '000	***BGN '000***
Present value of the obligation at 1 January	**2,277**	**2,195**
Current service cost	295	256
Interest cost	68	87
Net actuarial loss recognised for the period	2	2
Payments made in the year	(304)	(314)
Remeasurement gains or losses on the retirement benefit obligations, including:	120	51
Actuarial (gains)/losses arising from changes in demographic assumptions	(4)	152
Actuarial losses arising from changes in financial assumptions	55	143
Actuarial losses/(gains) arising from past experience adjustments	69	(244)
Present value of the obligation at 31 December	**2,458**	**2,277**

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

	2016	***2015***
	BGN '000	***BGN '000***
Current service cost	295	256
Interest cost	68	87
Net actuarial loss recognised for the period	2	2
Components of defined benefit plan costs recognised in profit or loss *(Note 7)*	**365**	**345**
Remeasurement gains or losses on the retirement benefit obligations, including:		
Actuarial (gains)/losses arising from changes in demographic assumptions	(4)	152
Actuarial losses arising from changes in financial assumptions	55	143
Actuarial losses/(gains) arising from past experience adjustments	69	(244)
Components of defined benefit plans cost recognised in other comprehensive income *(Note 14)*	**120**	**51**
Total	**485**	**396**

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

- The discount factor is calculated by using as basis 2.5% annual interest rate (2015: 2.8%). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5% annual growth compared to the prior reporting period (2015: 5 %);
- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2013-2015 (2015: 2012 - 2014);
- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2015: between 0% and 16%).

This defined benefit plan exposes the Company to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: The 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 present value of the obligation for payment of defined retirement benefits, are assessed as follows:

	2016		***2015***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	197	(172)	179	(157)
Change in discount rate	(173)	203	(158)	185
Change in staff turnover rate	(186)	216	(170)	197

The weighted average duration of the defined benefit obligation to personnel is 7.7 years (31 December 2015: 7.5 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***	***Poor health retirement***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Payments in 2017	437	9	446
Payments in 2018	217	9	226
Payments in 2019	294	9	303
Payments in 2020	325	9	334
Payments in 2021	293	9	302
	1,566	**45**	**1,611**

Long-term benefit obligations for tantieme

As at 31 December 2016, the long-term benefit obligations to personnel include also the amount of BGN 191 thousand (31 December 2015: BGN 149 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months (from 2018 to 2019).

33. 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	***31.12.2016***	***31.12.2015***
	BGN '000	***BGN '000***
Up to one year	3	19
Over one year	-	3
Total	**3**	**22**

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

Term	***31.12.2016***	***31.12.2015***
	BGN '000	***BGN '000***
Up to one year	3	22
Over one year	-	3
	3	25
Future finance costs under finance leases	-	(3)
Present value of finance lease liabilities	**3**	**22**

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

34. SHORT-TERM BANK LOANS

Currency	***Contracted amount***	***Maturity***	***31.12.2016***	***31.12.2015***
	'000		***BGN '000***	***BGN '000***
Bank loans (overdrafts)				
EUR	10,000	31.10.2017	11,603	30,491
BGN	10,000	31.01.2017	10,001	10,001
BGN	20,000	21.04.2017	9,242	-
EUR	10,000	20.03.2017	6,827	2,193
EUR	5,000	15.08.2017	-	9,787
EUR	5,000	15.08.2016	-	4
			37,673	**52,476**
Extended credit lines				
BGN	10,000	30.10.2017	8,005	10,006
EUR	5,000	31.08.2017	2,613	6,479
			10,618	**16,485**
Total			**48,291**	**68,961**

The bank loans received in Euro have been agreed at interest rate based on a 3-month EURIBOR plus a mark-up of up to 1.5 points, but not less than 1.5 points, monthly EURIBOR plus a mark-up of up to 1.75 points, but not less than 1.75 points, and monthly EURIBOR plus a mark-up of up to 1.7 points, while the loans received in BGN are based on a 3-month SOFIBOR plus 1.7 points, but not less than 1.85 points, monthly SOFIBOR plus 1.75 points, monthly SOFIBOR plus 1.7 points, and monthly SOFIBOR plus 1.5 points, but not less than 1.5 points (2015: the loans received in Euro – 3-month EURIBOR plus a mark-up of up to 2.45 points and monthly EURIBOR plus a mark-up of up to 2.1 points, but not less than 2.1 points, while the loans received in BGN – monthly SOFIBOR plus 2 points, 1-week SOFIBOR plus 2.2 points and 2-week SOFIBOR plus 2.85 points). Loans are intended for providing working capital.

Part of the loans drawn at 31 December are in the form of bank guarantees in favour of the National health Insurance Fund (NHIF) for covering obligations as follows:

- of Sopharma AD at the amount of BGN 20 thousand. (31 December 2015: BGN 523 thousand);
- of a subsidiary at the amount of BGN 1 thousand. (31 December 2015: BGN 16 thousand).

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

- Mortgages of real estate with a carrying amount of BGN 35,842 thousand as at 31 December 2016 (31 December 2015: BGN 36,612 thousand) *(Note 15 and Note 17*);
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 18,029 thousand as at 31 December 2016 (31 December 2015: BGN 12,561 thousand) *(Note 15 and Note 17);*
  - inventories with a carrying amount of BGN 24,425 thousand as at 31 December 2016 (31 December 2015: BGN 35,525 thousand) *(Note 23)*;
  - receivables from related parties with a carrying amount of BGN 18,229 thousand as at 31 December 2016 BGN (31 December 2015: BGN 18,229 thousand) *(Note 24*);
  - trade receivables with a carrying amount of BGN 11,735 thousand as at 31 December 2016 (31 December 2015: BGN 14,935 thousand) *(Note 25*);
  - trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 31 December 2016 (31 December 2015: BGN 12,623 thousand).

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

35. TRADE PAYABLES

Trade payables include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Payables to suppliers	4,351	7,723
Advances received	361	291
Total	**4,712**	**8,014**

Payables to suppliers are as follows:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Payables to foreign suppliers	2,817	5,507
Payables to local suppliers	1,534	2,216
Total	**4,351**	**7,723**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in BGN amount to BGN 1,423 thousand (31 December 2015: BGN 2,216 thousand), in EUR – BGN 2,016 thousand (31 December 2015: BGN 2,592 thousand), in USD – BGN 908 thousand (31 December 2015: BGN 2,876 thousand), in other currency – BGN -4 thousand (31 December 2015: BGN 35 thousand), and in PLN – none (31 December 2015: BGN 4 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 for payables to suppliers under commercial transactions at the amount of BGN 189 thousand (31 December 2015: BGN 236 thousand) *(Note 26*).

36. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Payables to subsidiaries	260	868
Payables to companies related through key managing personnel	215	1,702
Payables to main shareholding companies	14	89
Payables to companies related through a main shareholder	8	411
Total	**497**	**3,070**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Supply of services	336	1,121
Supply of inventories	137	557
Obligations for increasing the capital of a subsidiary	24	-
Supply of non-current assets	-	1,392
Total	**497**	**3,070**

The trade payables to related parties are regular and interest-free. The payables in Bulgarian Levs amount to BGN 467 thousand (31 December 2015: BGN 3,051 thousand), in PLN – BGN 30 thousand (31 December 2015: BGN 9 thousand), and in EUR – none (31 December 2015: BGN 10 thousand).
The common credit period, for which no interest is charged on trade payables to related parties, is 90 days. The Company has no overdue trade payables to related parties.
The Company has placed deposits as security for payables to related parties under commercial transactions at the amount of BGN 231 thousand (31 December 2015: BGN 292 thousand) *(Note 21*).

37. TAX PAYABLES

Tax payables include:

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Taxes on expenses	416	467
Individual income taxes	193	169
Value added tax	-	329
Total	**609**	**965**

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

Sopharma AD (as a receiving company):

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

Bulgarian Rose Sevtopolis (as a transforming company)

- under VAT Act – until 31 December 2014;
- full-scope tax audit – until 31 December 2013;
- National Social Security Institute – until 31 December 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.

38. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Payables to personnel, including:	4,541	4,021
tantieme	*2,895*	*2,486*
current liabilities	*931*	*877*
accruals on unused compensated leaves	*715*	*658*
Payables for social security/health insurance, including:	822	748
current liabilities	*706*	*642*
accruals on unused compensated leaves	*116*	*106*
Total	**5,363**	**4,769**

39. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2016	*31.12.2015*
	BGN '000	***BGN '000***
Government grants *(Note 31)*	499	497
Dividend liabilities	307	294
Awarded amounts under litigations	343	332
Fines and penalties	189	188
Deductions from work salaries	172	171
Finance lease liabilities *(Note 33)*	3	19
Other	1	7
Total	**1,514**	**1,508**

40. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

In relation to the amount of EUR 1,034 thousand (BGN 2,022 thousand) awarded by the Court of Arbitration in Paris, Sopharma AD initiated cases in Poland against former members of the Management Board of the convicted company for caused damages and non-performance of the obligations regarding the bankruptcy of the said company. As at 31/12/2016, the cases are pending in the District Court and the Regional Court of Warsaw.

Significant irrevocable agreements and commitments

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 *(Note 31 and Note 39*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section *(Note 15*). The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Issued and granted guarantees

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

Company	**Maturity**	**Currency**	**Contracted amount**		**Guarantee amount as at**
			Original currency	**BGN '000**	**31.12.2016 BGN '000**
Sopharma Trading AD	2017 - 2021	EUR	54,202	106,010	88,854
Sopharma Properties REIT	2024	EUR	22,619	44,240	28,818
Sopharma Trading AD	2017	BGN	14,732	14,732	13,380
Sopharma Ukraine EOOD	2017	EUR	7,000	13,691	4,060
OAO Vitamini	2017	EUR	7,000	13,691	5,299
Biopharm Engineering AD	2023	BGN	4,250	4,250	1,307
Veta Pharma AD	2018	BGN	1,000	1,000	680
Mineralcommerce AD	2017 - 2021	BGN	701	701	585
Total					**142,983**

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

(a) under loans of subsidiaries:

- Mortgages of real estate with a carrying amount of BGN 10,368 thousand as at 31 December 2016 (31 December 2015: BGN 10,572 thousand) *(Note 15)*;
- Special pledges on:

  - machinery and equipment with a carrying amount of BGN 11,005 thousand as at 31 December 2016 (31 December 2015: BGN 11,640 thousand) *(Note 15)*;

  - inventories with a carrying amount of BGN 17,000 thousand as at 31 December 2016 (31 December 2015: BGN 17,000 thousand) *(Note 23)*;

  - trade receivables with a carrying amount of BGN 11,735 thousand as at 31 December 2016 (31 December 2015: BGN 11,735 thousand) *(Note 25)*.

(b) under loans of companies related through key managing personnel:

- Mortgages of real estate – none (31 December 2015: BGN 1,119 thousand) *(Note 17)*.

(c) under loans of third parties:

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

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 organization 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.

41. FINANCIAL RISK MANAGEMENT

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

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

Categories of financial instruments:

Financial assets	*31.12.2016*	*31.12.2015*
	BGN '000	*BGN '000*
Available-for-sale financial assets	***5,229***	***5,510***
Available-for-sale investments (in shares)	*5,229*	*5,510*
Loans and receivables	***109,747***	***125,068***
Long-term receivables from related parties	*11,011*	*20,505*
Other long-term receivables	*3,714*	*3,257*
Short-term receivables from related parties	*71,076*	*78,035*
Trade receivables	*21,312*	*20,554*
Other receivables	*2,634*	*2,717*
Cash and cash equivalents	4,343	3,745
Total financial assets	***119,319***	***134,323***

Financial liabilities	***31.12.2016***	***31.12.2015***
	BGN '000	***BGN '000***
Bank loans	***79,320***	***107,160***
Long-term bank loans	23,844	30,819
Short-term bank loans	*48,291*	*68,961*
Current portion of long-term bank loans	*7,185*	*7,380*
Other liabilities	***5,690***	***11,629***
Trade payables to related parties	*497*	*3,070*
Trade payables	*4,351*	*7,723*
Finance lease liabilities	*3*	*22*
Other liabilities	*839*	*814*
Total financial liabilities at amortised cost	***85,010***	***118,789***

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 Euro and thus eliminates the currency risk related to the devaluation of the Russian Rouble. The accounts and balances with the subsidiaries in Ukraine are also denominated in Euro. Nevertheless, in relation with the instability in the country and the devaluation of the Ukrainian Hryvnia, for the purpose of mitigating the currency risk the Company, through its subsidiaries, exercises currency policy that includes the immediate translation in EUR of proceeds in a local currency as well as using higher trade margins to compensate eventual future devaluation of the Hryvnia.

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

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

31 December 2016	**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	-	1,796	3,433	-	5,229
Receivables and loans granted	4,856	56,503	48,376	12	109,747
Cash and cash equivalents	38	282	4,000	23	4,343
Total financial assets	**4,894**	**58,581**	**55,809**	**35**	**119,319**
Bank loans	-	52,072	27,248	-	79,320
Other liabilities	1,238	2,016	2,399	37	5,690
Total financial liabilities	**1,238**	**54,088**	**29,647**	**37**	**85,010**

31 December 2015	**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	-	1,553	3,957	-	5,510
Receivables and loans granted	4,762	81,856	38,438	12	125,068
Cash and cash equivalents	799	606	2,171	169	3,745
Total financial assets	**5,561**	**84,015**	**44,566**	**181**	**134,323**
Bank loans	-	87,153	20,007	-	107,160
Other liabilities	3,208	2,602	5,749	70	11,629
Total financial liabilities	**3,208**	**89,755**	**25,756**	**70**	**118,789**

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	
		31.12.2016 BGN '000	31.12.2015 BGN '000
Financial result	+	329	212
Accumulated profits	+	329	212
Financial result	-	(329)	(212)
Accumulated profits	-	(329)	(212)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2016 would be an increase by BGN 329 thousand (0.87%) (2015: increase at the amount of BGN 212 thousand) (0.84 %). The same effect in terms of value would be seen on equity – 'retained earnings' component.

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

The impact of the remaining currencies (other than USD) on 10 % increase in their exchange rates to BGN on Company’s (post-tax) profit is insignificant. The ultimate effect thereon for 2016 is a decrease by BGN 1 thousand (0.002 %) (2015: increase at the amount of BGN 12 thousand (0.05%). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

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

Price risk

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

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

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

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

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

Credit risk

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

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Client 1	46%	28%
Client 2	12%	21%
Client 3	12%	15%

The Company currently manages the concentration of receivables from related parties by applying credit limits and additional collateral 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 78.60% of all trade receivables (31 December 2015: 81.67 %).

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 2016	**up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**over 5 years**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Bank loans	10,823	8,248	11,294	26,189	7,641	17,214	-	**81,409**
Other loans and liabilities	3,192	1,585	60	853	-	-	-	**5,690**
Total liabilities	**14,015**	**9,833**	**11,354**	**27,042**	**7,641**	**17,214**	**-**	**87,099**

31 December 2015	**up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**over 5 years**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Bank loans	1,045	3,810	2,402	71,040	7,966	22,691	2,409	**111,363**
Other loans and liabilities	7,456	3,345	5	822	4	-	-	**11,632**
Total liabilities	**8,501**	**7,155**	**2,407**	**71,862**	**7,970**	**22,691**	**2,409**	**122,995**

Risk of interest-bearing cash flows

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

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

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

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

31 December 2016	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	5,229	-	-	5,229
Loans and receivables	77,674	-	32,073	109,747
Cash and cash equivalents	85	4,258	-	4,343
Total financial assets	**82,988**	**4,258**	**32,073**	**119,319**
Bank loans	-	79,320	-	79,320
Other loans and liabilities	5,687	3	-	5,690
Total financial liabilities	**5,687**	**79,323**	**-**	**85,010**

31 December 2015	interest-free	with floating interest %	with fixed interest %	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	5,510	-	-	5,510
Loans and receivables	75,238	-	49,830	125,068
Cash and cash equivalents	56	3,689	-	3,745
Total financial assets	**80,804**	**3,689**	**49,830**	**134,323**
Bank loans	8	107,152	-	107,160
Other loans and liabilities	11,607	22	-	11,629
Total financial liabilities	**11,615**	**107,174**	**-**	**118,789**

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.

2016

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(234)	(234)
BGN	Increase	(123)	(123)
EUR	Decrease	234	234
BGN	Decrease	123	123

2015

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(392)	(392)
BGN	Increase	(90)	(90)
EUR	Decrease	392	392
BGN	Decrease	90	90

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 the difference between total borrowings, as presented in the statement of financial position, and cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt.

In 2016, the strategy of the Company management was to maintain the ratio within 10% – 18% (2015: 15 % – 20 %).

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

	2016	*2015*
	BGN '000	*BGN '000*
Total borrowings, including:	**79,323**	**107,182**
bank loans	*79,320*	*107,160*
finance lease liabilities	*3*	*22*
Less: Cash and cash equivalents	**(4,343)**	**(3,745)**
Net debt	**74,980**	**103,437**
Total equity	**462,875**	**431,626**
Total capital	**537,855**	**535,063**
Gearing ratio	**0.14**	**0.19**

The liabilities shown in the table are disclosed in *Notes 27, 29, 33, 34 and 39.*

Fair value measurement

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

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

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

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

42. 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*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Segment revenue	112,668	115,033	27,460	32,579	23,699	26,191	163,827	173,803
Segment cost	(52,031)	(54,866)	(15,265)	(15,406)	(16,235)	(21,334)	(83,531)	(91,606)
Segment result	**60,637**	**60,167**	**12,195**	**17,173**	**7,464**	**4,857**	**80,296**	**82,197**
Non-allocated operating income							4,193	3,651
Non-allocated operating expenses							(58,155)	(60,711)
Profit from operations							**26,334**	**25,137**
Impairment of non-current assets							(5,627)	(8,567)
Finance income/(costs), net							20,982	11,610
Profit before income tax							**41,689**	**28,180**
Income tax expense							(3,919)	(2,826)
Net profit for the year							**37,770**	**25,354**

Segment assets and liabilities include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	77,759	82,689	24,327	24,928	16,261	16,580	118,347	124,197
Inventories	33,732	36,641	9,809	9,985	11,946	11,596	55,487	58,222
Segment assets	**111,491**	**119,330**	**34,136**	**34,913**	**28,207**	**28,176**	**173,834**	**182,419**
Non-allocated assets							**395,274**	**388,190**
Total assets							**569,108**	**570,609**

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Payables to personnel	163	164	123	133	217	192	503	489
Social security payables	109	95	83	69	145	116	337	280
Segment liabilities	**272**	**259**	**206**	**202**	**362**	**308**	**840**	**769**
Non-allocated liabilities							**105,393**	**138,214**
Total liabilities							**106,233**	**138,983**

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*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Capital expenditures	222	157	530	6,525	613	52	1,365	6,734
Depreciation and amortisation	4,743	4,874	2,140	1,820	1,505	1,542	8,388	8,236
Non-monetary expenses, other than depreciation and amortisation	955	876	885	703	1,092	1,200	2,932	2,779

43. RELATED PARTY TRANSACTIONS

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

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2015 and 2016
Donev Investments Holding AD	Main shareholding company	2015 and 2016
Sopharma Trading AD	Subsidiary company	2015 and 2016
Pharmalogistica AD	Subsidiary company	2015 and 2016
Sopharma Poland OOD – in liquidation	Subsidiary company	2015 and 2016
Sopharma USA	Subsidiary company	2015
Electroncommerce EOOD	Subsidiary company	2015 and 2016
Biopharm Engineering AD	Subsidiary company	2015 and 2016
Vitamina AD	Subsidiary company	2015 and 2016
Ivančić and Sinovi d.o.o.	Subsidiary company	2015 and until 09/05/2016
Sopharma Buildings REIT	Subsidiary company	2015 and 2016
Momina Krepost AD	Subsidiary company	2015 and 2016
Extab Corporation	Subsidiary company	until 14/05/2015
Extab Pharma Limited	Subsidiary company through Extab Corporation	until 14/05/2015
Briz SIA	Subsidiary company	2015 and 2016
Unipharm AD	Subsidiary company	2015 and 2016
Sopharma Warsaw EOOD	Subsidiary company	2015 and 2016
Sopharma Ukraine EOOD	Subsidiary company	2015 and 2016
TOO Sopharma Kazakhstan, Kazakhstan	Subsidiary company	2015 and 2016
Phyto Palauzovo AD	Subsidiary company	2015 and 2016
Veta Pharma AD	Subsidiary company	as from 11/11/2016
Sopharmacy EOOD	Subsidiary company through Sopharma Trading AD	as from 19/01/2015 and 2016
Sopharmacy 2 EOOD	Subsidiary company through Sopharma Trading AD	as from 17/06/2015 and 2016
Sopharmacy 3 EOOD	Subsidiary company through Sopharma Trading AD	as from 02/12/2015 and 2016
Sopharmacy 4 EOOD	Subsidiary company through Sopharma Trading AD	as from 29/02/2016
Sopharmacy 5 EOOD	Subsidiary company through Sopharma Trading AD	as from 01/03/2016
Sopharmacy 6 EOOD	Subsidiary company through Sopharma Trading AD	as from 03/12/2015 and 2016
Sopharma Trading OOD - Belgrade	Subsidiary company through Sopharma Trading AD	as from 05/06/2015 and 2016
Medica AD	Associate	from 01/01/2015 to 25/10/2015
Medica AD	Subsidiary company	as from 26/10/2015 and 2016
Medica Zdrave EOOD	Subsidiary company through Medica AD	as from 26/10/2015 and 2016
Medica Balkans EOOD – in liquidation	Subsidiary company through Medica AD	from 26/10/2015 to 24/03/2016
SOOO Brititrade	Subsidiary company through Briz OOD	2015 and 2016
OOO Tabina	Subsidiary company through Briz OOD	2015 and 2016
ZAO Interpharm	Joint venture through Briz OOD	2015 and 2016

SOOO Brizpharm	Subsidiary company through Briz OOD	2015 and 2016
OOO Vivaton Plus	Joint venture through Briz OOD	2015 and 2016
OOO Farmacevt Plus	Subsidiary company through Briz OOD	2015 and 2016
ZAO UAB TBS Pharma	Subsidiary company through Briz OOD	2015 and 2016
ODO Vestpharm	Subsidiary company through Briz OOD	2015 and 2016
ODO Alean	Subsidiary company through Briz OOD	2015 and 2016
OOO NPK Biotest	Subsidiary company through Briz OOD	2015 and until 26/08/2016
OOO NPK Biotest	Associate company through Briz OOD	as from 27/08/2016
ODO BelAgroMed	Subsidiary company through Briz OOD	2015 and 2016
BOOO SpetzApharmacia	Joint venture through Briz OOD	2015 and 2016
OOO Med-dent	Joint venture through Briz OOD	2015 and 2016
OOO Bellerophon	Joint venture through Briz OOD	2015 and 2016
ODO Alenpharm Plus	Subsidiary company through Briz OOD	as from 09/07/2015 and 2016
ODO Alenpharm Plus	Associate company through Briz OOD	from 18/02/2015 to 08/07/2015
ODO Salyus Line	Associate company through Briz OOD	from 19/02/2015 to 22/11/2016
ODO Salyus Line	Subsidiary company through Briz OOD	as from 23/11/2016
OOO Mobil Line	Subsidiary company through Briz OOD	as from 16/02/2016
OOO Mobil Line	Associate company through Briz OOD	from 20/02/2015 to 15/02/2016
ODO Medjel	Subsidiary company through Briz OOD	as from 18/02/2015 and 2016
OOO GalenaPharm	Subsidiary company through Briz OOD	as from 20/02/2015 and 2016
OOO Danapharm	Subsidiary company through Briz OOD	as from 20/02/2015 and 2016
OOO NPFK Ariens	Joint venture through Briz OOD	as from 01/12/2015 and 2016
OOO Ivem & K	Joint venture through Briz OOD	as from 01/12/2015 and 2016
OOO Zdorovei	Associate company through Briz OOD	as from 09/12/2015 and 2016
OOO Farmatea	Subsidiary company through Sopharma Trading AD	as from 30/11/2015 and 2016
Sopharma Properties REIT	Company related through a main shareholder	2015 and 2016
Sofprint Group AD	Company related through a main shareholder	2015 and 2016
Elpharma AD	Company related through key managing personnel	2015 and 2016
Telso AD	Company related through key managing personnel	2015 and 2016
Telecomplect AD	Company related through key managing personnel	2015 and 2016
DOH Group	Company related through key managing personnel	2015 and until 20/12/2016
Doverie Obedinen Holding AD	Associate	as from 21/12/2016
Bulgarsko Vino OOD	Other related party	as from 21/12/2016

The transactions, performed between Sopharma AD and the related thereto companies at 31 December, are as follows:

Sales to related parties	***2016***	***2015***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	87,991	91,381
	87,991	**91,381**
Sales of goods and materials to:		
Subsidiaries	4,476	5,916
Companies related through a main shareholder	584	783
Companies related through key managing personnel	-	41
Associates	-	1
	5,060	**6,741**
Sales of services to:		
Subsidiaries	1,670	1,577
Companies related through key managing personnel	57	82
Companies related through a main shareholder	41	42
Associates	-	21
	1,768	**1,722**
Sales of property, plant and equipment to:		
Subsidiaries	186	-
	186	**-**
Dividend income from:		
Subsidiaries	9,110	7,874
Companies related through a main shareholder	12	-
	9,122	**7,874**
Interest on loans granted to:		
Companies related through key managing personnel	1,475	2,603
Subsidiaries	496	413
Associates	10	-
	1,981	**3,016**
Total	**106,108**	**110,734**

Supplies from related parties	***2016***	***2015***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies related through a main shareholder	6,859	8,573
Subsidiaries	310	261
Companies related through key managing personnel	93	87
Other related parties	2	-
Associates	-	554
	7,264	**9,475**
Supply of services from:		
Subsidiaries	8,716	12,147
Companies related through key managing personnel	3,337	3,023
Companies related through a main shareholder	1,653	1,782
Main shareholding companies	225	215
	13,931	**17,167**
Supply of non-current assets:		
Companies related through key managing personnel	74	20
Subsidiaries	6	344
	80	**364**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	4,869	7,000
	4,869	**7,000**
Investments acquired from:		
Companies related through key managing personnel	4,933	-
Companies with increased capital	48	-
	4,981	**-**
Accrued dividends to:		
Main shareholding companies	4,227	-
Companies related through key managing personnel	475	-
Subsidiaries	26	-
Key management personnel	15	
	4,743	**-**
Total	**35,868**	**34,006**

The terms and conditions of these transactions do not deviate from the market ones for similar transactions. The accounts and balances with related parties are presented in *Notes 21, 24 and 36.*

The members of the key personnel are disclosed in *Note 1.*
Salaries and other short-term benefits of key managing personnel are regular and amount to BGN 1,138 thousand (2015: BGN 1,154 thousand), including:

- current wages and salaries – BGN 884 thousand (2015: BGN 889 thousand);
- tantieme – BGN 254 thousand (2015: BGN 265 thousand).

44. EVENTS AFTER THE REPORTING PERIOD

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

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

On 9 March 2017, the Company's Board of Directors at its session decided to summon an Extraordinary General Meeting of Sopharma AD on 24 April 2017. Decisions are expected to be taken at that meeting for Company to become a co-debtor under: (a) investment loan contracts concluded between financial institutions and a subsidiary at the amount of EUR 12,000 thousand and BGN 16,000 thousand; and (b) turnover capital loan contract concluded between a financial institution and a subsidiary at the amount of BGN 14,000 thousand, and to provide its own assets as collateral in the form of mortgages of real estate (land and buildings) and special pledge on machinery and equipment.

On 17 March 2017, Sopharma AD submitted a draft tender proposal, pursuant to Art. 149 paragraph 6 of the POSA, on the purchase of all shares of Unipharm AD from the other shareholders, to be considered by the FSC. At the date of issue of these financial statements, the Financial Supervision Commission has not taken up a position on the presented draft.

MANAGEMENT REPORT

2016

SOPHARMA AD

27 March 2017

Content

I. General information about Sopharma AD

1. Registration and main activities

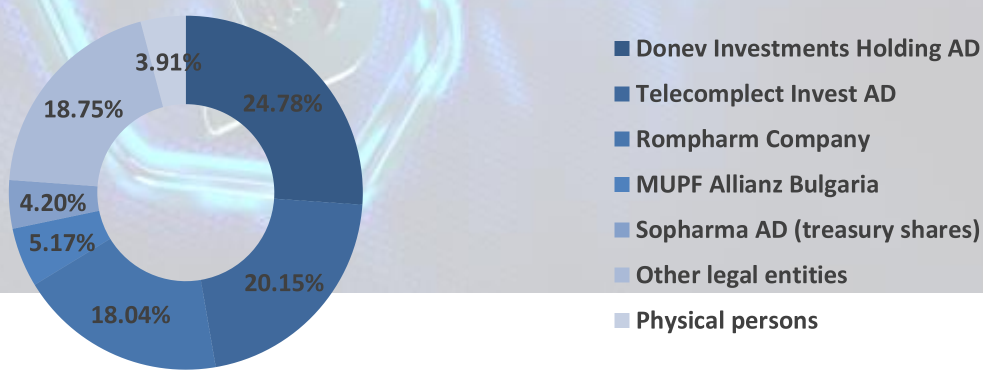
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16Iliensko shose str.

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 supporting activities.

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

2. Shareholder structure as at 31 December 2016



3. Board of Directors

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 Tchaushev, Andrey Breshkov. The Company is represented and managed by the Executive Director Ognian Donev, PhD.

II. Recent developments

1. Industrial activity

Sopharma AD has eight manufacturing facilities, which are compliant with EU regulations and are located in Bulgaria. The Company is the largest Bulgarian producer of sterile forms 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, sugar coated tablets, film coated tablets, capsules;
  - ✓ Galenical - suppositories, drops, syrups, unguents;
  - ✓ Parenteral - injectable, lyophilic powders for injections

2. Products

The Company has more than 210 products in its portfolio: mainly generics and 15 original products, 12 of which are 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 gynecology.

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 drug for treatment of severe allergies and certain life-threatening conditions;

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

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

Key financial indicators

Indicators	1-12/2016 *BGN '000*	1-12/2015 *BGN '000*	change %
Sales revenues	163 827	173 803	-5,7%
EBITDA	40 253	39 686	1,4%
Operating profit	26 334	25 137	4,8%
Net profit	37 770	25 354	49%
CAPEX	9 609	16 143	-40,5%
	31.12.2016 *BGN '000*	**31.12.2015** *BGN '000*	
Non-current assets	407 099	398 781	2,1%
Current assets	162 009	171 828	-5,7%
Owners' equity	462 875	431 626	7,2%
Non-current liabilities	38 062	44 316	-14,1%
Current liabilities	68 171	94 667	-28,0%

Ratios	2016	2015
EBITDA / Sales revenues	24,6%	22,8%
Operating profit/ Sales revenues	16,1%	14,5%
Net profit/ Sales revenues	23,1%	14,6%
Borrowed capital/Owners' equity	0,23	0,32
Net debt/ EBITDA	1,86x	2,61x

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

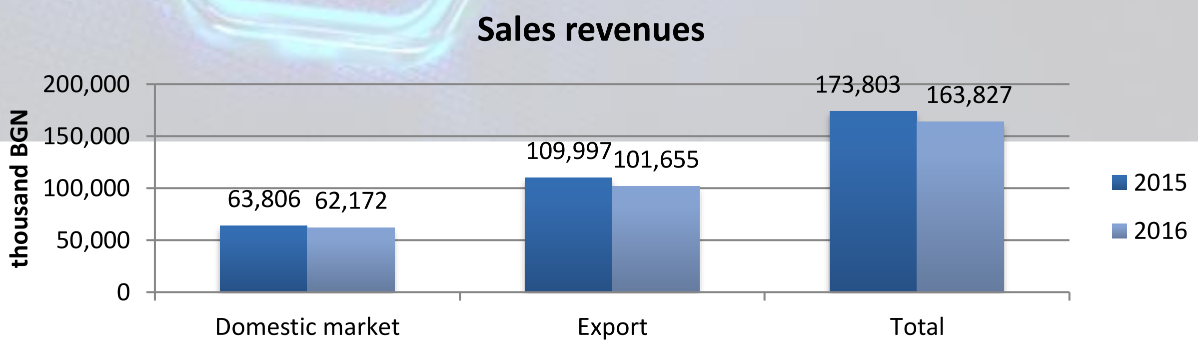
- The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Group's operations and position.
- The political environment in Bulgaria has a significant effect on the Group's operations and financial condition.
- The political environment in the Group's 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 recognized 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 conducts through its subsidiaries a currency policy, which includes the implementation of advance payments and shortening of the periods of delayed payments and immediate exchange of revenues in local currency in euros, as well as raising of the price mark-ups on products in order to compensate for possible future devaluation of the hryvnia. To control foreign currency risk, the 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.

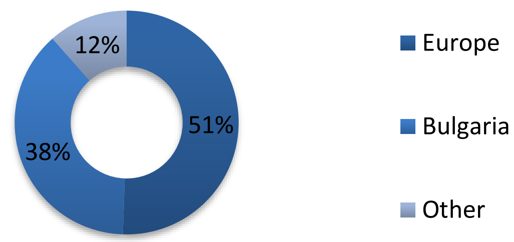
2. Analysis of the main financial and non-financial indicators related to the activities of Sopharma AD (art. 39, item 2 of the Accounting Law)

Sales revenues of production decrease by BGN 10 million or 6%, reaching BGN 163.8 million at the end of 2016, compared to BGN 173.8 million at the end of 2015.



Revenues by market	2016 BGN '000	2015 BGN '000	Change %
Europe	82 790	91 608	-

			10 %
Bulgaria	62 172	63 806	-3%
Other	18 865	18 389	3%
Total	**163 827**	**173 803**	-6%



Europe

Revenues from sales to European countries decreased by 10% compared to 2015 due to the decrease of sales in Russia, Poland, Belarus and Serbia. The sales in Latvia, Ukraine, Croatia, Kosovo, Bosna and Herzegovina increase. Towards the end of the period certain signals for stabilization of the Russian economic and political situation were visible and this provides a certain degree of comfort for 2017. This effect for the export sales will be supported also by the recovering sales in the Ukraine. After the restructuring of the export activities in the Company the local structures are focused on increasing the sales on a number of markets as Poland, Belarus, Latvia etc.

Bulgaria

The sales of Sopharma AD on the domestic market decrease by BGN 1.6 million, or 3% and reached BGN 62.2 million at the end of 2016 compared to BGN 63,8 million at the end of 2015, the main reason being the overall price erosion on the market (for the same period the company realized 7% increase in volume of sales). The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C and Nivalin. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 14% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0,3% in units), Actavis – 5% (11% in units), GlaxoSmithKline – 4% (2% in units), Sanofi-Aventis – 4% (3% in units), Astra Zeneca – 3% (1% in units), Bayer – 3% (2% in units).

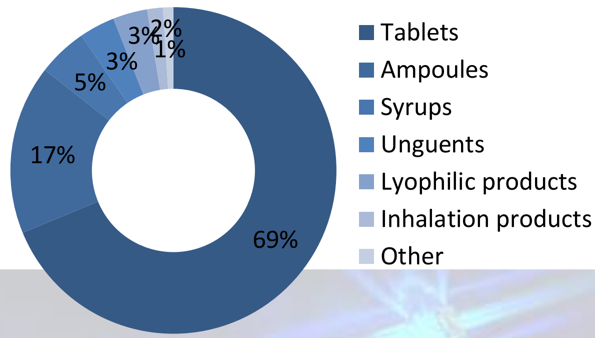
Other markets

Revenues from other markets increase with 3% compared to 2015. These mainly include revenues from sales in the Caucasus and Central Asia. Sales revenue in Vietnam, USA and Mongolia.

Sales by type of formulation

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

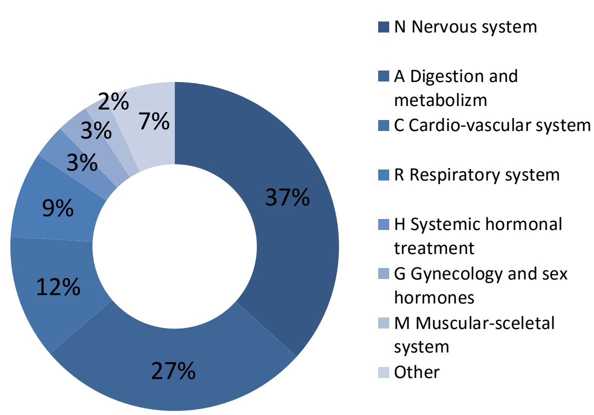
Revenues by type of formulation	**2016** ***BGN '000***	**2015** ***BGN '000***	**Change %**
Tablets	112 668	115 033	-2%
Ampoules	27 460	32 579	-16%
Syrups	8 061	7 282	11%
Unguents	5 794	7 673	-24%
Lyophilic products	5 586	5 846	-4%
Inhalation products	2 572	3 433	-25%
Other	1 686	1 957	-14%
Total	**163 827**	**173 803**	-6%



Sales by therapeutic group

Revenues by therapeutic group	**2016** ***BGN '000***	**2015** ***BGN '000***	**Change %**
N Nervous system	60 095	64 609	-7%
A Digestion and metabolism	44 289	44 102	0%
C Cardio-vascular system	20 019	24 370	-18%
R Respiratory system	13 889	14 697	-5%
H Systemic hormonal treatment	5 435	5 882	-8%
G Gynecology and sex hormones	5 149	5 257	-2%
M Muscular-skeletal system	3 613	4 189	-14%
Other	11 338	10 697	6%
Total	**163**	**173**	-6%

	827	**803**



Other operating revenues

Other operating revenues	2016 *BGN '000*	2015 *BGN '000*	Change %	Share 2016 %
Income from services rendered	3 494	3 364	4%	83%
Income from financing under European programs	497	397	25%	12%
Income from sale of goods	174	263	-34%	4%
Income from sale of LTA	122	(138)	-188%	3%
Income from sale of materials	109	117	-7%	3%
Losses from revaluation of investment properties to fair value	(233)	(79)	195%	-6%
Net loss from exchange rate differences from CR, CP, BA	(258)	(800)	-68%	-6%
Other (see Notes to the FS)	288	527	-45%	7%
Total	**4 193**	**3 651**	15%	100%

Other operating income increased by BGN 0,5 million or 15% from BGN 3.7 million in 2015 to BGN 4.2 million in 2016.

Operating expenses

Operating expenses	2016 *BGN '000*	2015 *BGN '000*	Change %	Share 2016 %
Changes in the finished goods and work-in-progress inventory	(360)	(6 667)	-95%	0%
Materials	55 172	61 619	-10%	39%
External services	33 297	41 275	-19%	23%
Personnel	34 414	35 331	-3%	24%
Amortization	13 919	14 549	-4%	10%
Other operating expenses	5 244	6 210	16%	4%
Total	**141 686**	**152 317**	**-7%**	**100%**

The operating expenses decreased by BGN 10.6 million or 7% from BGN 152.3 million in 2015 to BGN 141.7 million in 2016, which is due to a decrease of the expenses directly related to the decrease in sales and due to the optimization of the external services expenses and personnel expenses.

Cost of materials (39% share) decreased by BGN 6.4 million or 10% from BGN 61.6 million in 2015 to BGN 55.2 million in 2016.

Hired services have a 23% share of operating expenses and decreased by BGN 8 million or 19%, to BGN 33.3 million in 2016 compared to BGN 41.3 million in 2015. The most significant impact has the decrease in marketing and advertising services by BGN 3.3 million, as well as manufacturing of medicines with BGN 1.5 million, the consultancy expenses with BGN 1.1 million and services related to clinical trials with BGN 1.4 million.

Personnel costs (with a share of 24% of operating expenses) decreased by BGN 0.9 million, or 3% from BGN 35.3 million in 2015 to BGN 34.43 million in 2016 due to optimization in the number of employees in the Company.

Other operating expenses (with a relative share of 4% of operating expenses) decreased by 1 million from BGN 6.2 million in 2015 to BGN 5.2 million in 2016, which is mostly due to recovered impairment of finished products and unfinished products.

Costs of amortization (with a relative share of 10% of operating expenses) decreased by BGN 0.6 million or 4% from BGN 14.5 million in 2015 to BGN 13,9 million in 2016.

Changes in the finished goods and work-in-progress inventory decrease with BGN 6 million. This change is due to the improved inventory turnover which followed the optimized logistics, production and realization schedule.

Financial income and expenses

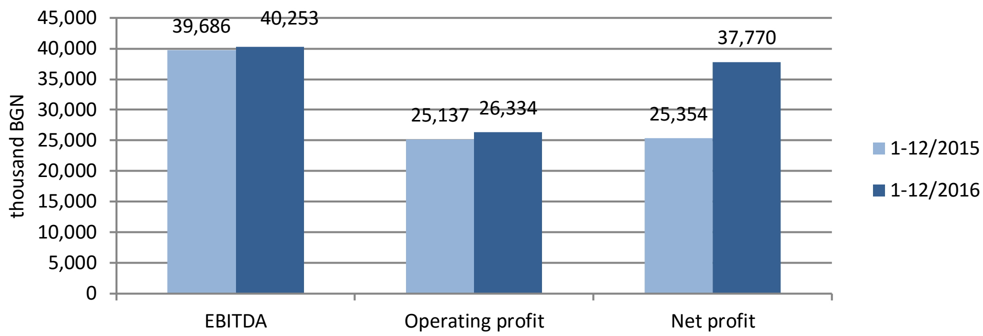
Financial income	2016 BGN '000	2015 BGN '000	Change %	Share 2016 %
Net gain from operations with securities and shares	12 740	6 908	84%	53%
(including gain from sale of a subsidiary)	12 721	6 851	86%	53%
Income from share participations	9 161	7 881	16%	38%
Income from interest on loans granted	2 126	3 120	-32%	9%
Net gain from exchange rate differences on a receivable from a subsidiary	131			0%
Net gain from exchange rate differences on loans		13	-100%	0%
Total	**24 158**	**17 922**	35%	100%
Financial expenses				
Expenses for interest on loans received	2 062	3 510	-41%	65%
Impairment of receivables on provided commercial loans	688	1 955	-65%	22%
Bank fees for loans and guarantees	302	270	12%	10%
Hedging of monetary funds effects	109			3%
Impairment of cash	8	165	-95%	0%
Impairment of available-for-sale investments	4	398	-99%	0%
Financial leasing expenses	3	14	-79%	0%
Total	**3 176**	**6 312**	-50%	100%

Financial income increased by BGN 6.2 million, or 35%, to BGN 24.1 million in 2016 compared to BGN 17.9 million in 2015.

Financial expenses increased by BGN 3.1 million or 50% to BGN 3.2 million in 2015 compared to BGN 6.3 million in 2015.

Net financial income (expense) increased by BGN 9.4 million reaching BGN 21 million in 2016, compared to BGN 11.6 million in 2015.

Financial result



Profit before interest, taxes, depreciation and amortization (EBITDA) increased by BGN 0.6 million or 1.4%, amounting to BGN 40.3 million as in 2016, compared to BGN 39.7 million as at in 2015.

The operating profit increased by BGN 1.2 million or 4.8%, reaching BGN 26.3 million as at in 2016, compared to BGN 25.1 million as at in 2015.

Net profit increased by BGN 12.4 million or 49% to BGN 37.8 million in 2016 compared to BGN 25.4 million in 2015.The main reasons for the increase is the increase in operations with securities net BGN 5.8 million, to a large extent as a result of the sales by the Company of the shares in Ivanchich and sons DOO, the increase of income from securities and due to the decrease of the interest expenses on bank loans and the improved conditions related to bank loans and the significantly decreased bank exposure.

Assets

	31.12.2016	31.12.2015	Change	Share 2016
Non-current assets	**BGN '000**	**BGN '000**	**%**	**%**
Property, plant and equipment	209 326	211 943	-1%	51%
Intangible assets	2 177	2 507	-13%	1%
Investment property	22 840	22 160	3%	6%
Investments in subsidiaries	147 583	132 899	11%	36%
Investments in associated companies	5 219			1%
Available-for-sale investments	5 229	5 510	-5%	1%
Long-term receivables from related parties	11 011	20 505	-46%	3%
Other long-term receivables	3 714	3 257	14%	1%
	407 099	***398 781***	2%	72%

Current assets				
Inventories	56 807	61 701	-8%	35%
Receivables from related parties	71 076	78 035	-9%	44%
Commercial receivables	22 479	21 466	5%	14%
Other receivables and prepaid expenses	7 304	6 881	6%	4%
Cash and cash equivalents	4 343	3 745	16%	3%
	162 009	***171 828***	-6%	28%
TOTAL ASSETS	***569 108***	***570 609***	-0,3%	100%

Total assets decreased by BGN 1,5 million or 0,3% to BGN 569,1 million compared to BGN 570,6 million as at 31 December 2015.

Non-current assets increased by BGN 8.3 million, or 2%, mainly due to an increase in investments in subsidiaries by BGN 14.7 million and investments in associates by BGN 5.2 million. The investments in subsidiaries increase by BGN 14.7 million mainly due to the increase of the investment in Medica AD and Veta Pharma AD. The investments in associates are related to the acquisition of a share in the capital of Doverie Obedinen Holding AD. There is a decrease in long-term loans to related parties with BGN 9.5 million.

Current assets decreased by BGN 9.8 million or 6% to BGN 162 million as at 31 December 2016 compared to BGN 171.8 million as at 31 December 2015.

Material inventories decrease by BGN 4.9 million or 8% compared to 31 December 2015 mainly due to decrease in the finished goods inventory with BGN 6.9 million. Receivables from related parties decrease with BGN 7 million as a result of the decrease in the commercial loans granted with BGN 9.2 million and an increase in the receivables from sales of products and materials with BGN 2.2 million.

Liabilities and owners' equity

	31.12.2016	31.12.2015	Change	Share 2016
OWNERS' EQUITY	**BGN '000**	**BGN '000**	**%**	**%**
Share capital	134 798	134 798	0%	29%
Treasury stock	(18 809)	(17 597)	7%	-4%
Reserves	304 403	284 227	7%	66%
Retained earnings	42 483	30 198	41%	9%
TOTAL OWNERS' EQUITY	***462 875***	***431 626***	7%	100%

	31.12.2016	31.12.2015	Change	Share 2016
LIABILITIES	**BGN '000**	**BGN '000**	**%**	**%**
Non-current liabilities				
Long-term bank loans	23 844	30 819	-23%	22%
Liabilities on deferred taxes	5 703	4 697	21%	5%
Government financing	5 866	6 371	-8%	6%
Long-term liabilities to the personnel	2 649	2 426	9%	3%
Financial leasing liabilities	0	3	-100%	0%
	38 062	***44 316***	-14%	36%
Current liabilities				
Short-term bank loans	48 291	68 961	-30%	46%
Short-term part of long-term bank loans	7 185	7 380	-3%	7%
Commercial liabilities	4 712	8 014	-41%	4%
Liabilities to related parties	497	3 070	-84%	0%
Liabilities for taxes	609	965	-37%	1%
Liabilities to the personnel and for social insurance	5 363	4 769	12%	5%
Other current liabilities	1 514	1 508	0%	1%
	68 171	***94 667***	-28%	64%
TOTAL LIABILITIES	***106 233***	***138 983***	-24%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	***569 108***	***570 609***	-0,3%	

Equity increased by BGN 31.3 million or 7%, reaching BGN 462.9 million as at 31 December 2016 compared to BGN 431.6 million as at 31 December 2015 mainly as a result of an increase in reserves by BGN 20.2 million and undistributed profit by BGN 12.3 million.

Non-current liabilities decreased by BGN 6,2 million or 14% to BGN 38.1 million at the end of 2016 compared to BGN 44,3 million as at the end of 2015 mainly due to a decrease of long-term bank loans by BGN 7 million due to maturity of installments for an investment loan.

Current liabilities decreased by BGN 26.5 million or 28% to BGN 68.2 million at the end of 2016 compared to BGN 94.7 million as at the end of 2015. This is mainly due to a decrease in commercial liabilities BGN 3.3 million, short-term bank loans by BGN 20.7 million and liabilities to related parties by BGN 2.6 million. The total exposure to banks of the Company as at 31 December 2016 decreased by about BGN 27.8 million compared to 31 December 2015.

Ratios

	31.12.2016	31.12.2015	Change
ROE	8,3%	6,0%	2,3%
ROA	6,6%	4,4%	2,2%
Asset turnover	0,29	0,30	-0,01
Current liquidity	2,38	1,82	0,56
Quick ratio	1,54	1,16	0,38
Cash/current liabilities	0,06	0,04	0,02
Owners’ equity/liabilities	4,36	3,11	1,25

Cash flow

	31.12.2016 BGN '000	31.12.2015 BGN '000
Net cash flow from/(used in) operations	26 636	28 398
Net cash flow used in investment activities	12 891	(410)
Net cash flow (used in)/from financial operations	(38929)	(27 721)
Net increase/(decrease) of cash and cash equivalents	598	267
Cash and cash equivalents on 1 January	3 745	3 478
Cash and cash equivalents on 31 December	4 343	3 745

Net cash flows in 2016 generated from operating activities amounted to BGN 26.6 million, incoming cash flow from investing activities BGN 12.9 million incoming cash flow and financing activities BGN 38.9 million outgoing cash flow. As a result of these activities cash and cash equivalents mark a net increase of BGN 0,6 million and as at 31 December 2016 amount to BGN 4.3 million compared to 3.7 million as at 1 January 2016.

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

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

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

Employees

The average number of employees of Sopharma AD is 1873 (2015: 2 010). The table below shows the detailed information on the staff of the Company.

	31.12.2016	Share %
Number of employees 31.12.2015	1834	100%
Higher education	799	43%
Special education	41	2%
High school education	965	53%
Primary school education	29	2%
Up to 30 years of age	189	10%
Between 31 - 40 years of age	390	21%
Between 41 - 50 years of age	617	34%
Between 51 - 60 years of age	530	29%
Over 60 years of age	108	6%
Women	1138	62%
Men	696	38%

Training programs offered to employees of the Company, aim at increasing their competence levels. The training policy is specifically designed to provide high levels of 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.

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

- On 5 January 2017, in the US Achieve Life Science Inc. and OncoGenex Pharmaceuticals Inc. announced a merger agreement under which OncoGenex Pharmaceuticals Inc. will acquire Achieve Life Science Inc. through of all-stock. Upon completion of the proposed merger it is expected that the shareholders of Achieve Life Science Inc. will own 75% of the outstanding shares of the combined company, while current shareholders of OncoGenex Pharmaceuticals Inc. will own the remaining 25% of the outstanding shares. The agreement is submitted for approval by the Securities and Exchange Commission (SEC). After its approval the combined company will be renamed Achieve Life Sciences Inc. and will be recorded in the NASDAQ. As a result of the above - mentioned actions Sopharma will own 423 000 shares (3.525%) of the capital of Achieve Life Science Inc..
- On 1 February 2017, pursuant to Art. 151, para. 3 of POSA, Sopharma AD submitted a revised offer under Art. 149, para. 6 of POSA to purchase shares of the remaining shareholders of Unipharm price of 4.35 lev per share. Sopharma AD as a tender offeror states that it does not 1 342 234 shares, representing 22.37% of total ordinary shares

ISIN code BG1100154076 from the shares with voting rights in the General Meeting of Shareholders of Unipharm AD and makes this offer to the remaining sahreholders for their acquisition. At the date of issue of this report the Financial Supervision Commission (FSC) has not taken a position on the tender offer.

- On 31 January 2017 the Contract for merger, as well as reports of the management bodies of the companies involved in the transformation of the company under art. 262i of the CA and the report of the examiner under art. 262m of the CA for transformation through merger between Sopharma AD, Sofia, UIC 831902088 and Medica AD, Sofia, UIC 000000993 were filed with the FSC for approval pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA). As a result of the merger, all assets of Medica AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Medica AD shall be terminated without liquidation. On 20 March 2017 Sopharma AD, Sofia, UIC 831902088 and Medica AD, Sofia, UIC 000000993 signed an annex to the Contract for transformation through merger reflecting the comments by the FSC. All documents will be filed with the FSC for approval pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA) after an independent certified evaluator prepares a report. As a result of the merger, all shareholders of the transferring company Medica AD, with the exception of the receiving company Sopharma AD, which is also a shareholder of the transferring company, will receive shares of Sopharma AD and become shareholders of it. Against one share of Medica AD each shareholder pursuant to art. 261b, app. 1 of the CA shall receive 0.8831 treasury shares of the capital of Sopharma AD. All other conditions concerning the merger procedure are included in the Contract.
- The Board of Directors, pursuant to art. 223 of the Commercial Act /CA/ and art. 115 of the Public Offering of Securities ACT /POSA/, convenes an Extraordinary Meeting of Shareholders of Sopharma AD, which shall be held on 24 April 2017 at 11:00 at the Company's headquarters in Sofia, at: 5 Lachezar Stanchev Str., Building B and in the absence of quorum on 8 May 2017 at the same place, the same time and with the same agenda:

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

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

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

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

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

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

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

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

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

8. Miscellaneous.

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

- On the local market the Company aims to make treatment more accessible to patients through the faster development and registration of generic products.
- With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Company on the main markets (Russia, Ukraine and Poland) as well as establishing and extending presence in other countries (USA, Central and East European countries, and the Caucasian region).
- The Company continues the policy of active partnership with recognized international pharmaceutical companies, with new companies as well as broadening the product range of already established collaborations.
- The planned investment program of the Company for 2017 includes investments amounting to BGN 9 million for acquisition of buildings, machines, equipment and software. These assets will be used for renovation of the current production facilities.

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

Sopharma 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.

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 in-house-developed extraction technologies. In addition to trademark these products are protected with patent or corporate know-how.

For the distinguishing of the manufactured generic products Sopharma 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.

New developments and products

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

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

- Expected in 2017

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

- Developments

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

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

In 2017 the Company bought back 443 418 shares (2015: 105 166 shares) and sold 300 shares (2015: none). The shares bought back during the year represent 0.33% of the capital of the Company and the average purchase price is 2.72 BGN.

	Shares	Capital, net from treasury shares
	amount	*BGN '000*
Outstanding shares on 1 January 2016	129 578 603	117 201
Sold treasury shares	300	1
Treasury shares acquired	(443 418)	(1 207)
Acquisition expense		(6)
Outstanding shares on 31 December 2016	129 135 485	115 989

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

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

Sopharma AD owns 5 662 414 treasury shares representing 4.2% of the capital of the Company.

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

Sopharma AD does not have branches.

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

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

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

Credit risk

Credit risk is the risk that any of the 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

The assets structure represents the interes baring assets as cash, negotiated with a floating interest rate and loans granted, 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) optimization of the sources of credit resources for achieving relatively lower price of attracted funds;
b) the combined structure of interest rates on loans, which consists of two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favorable for the 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 unfavorable 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.

IV. Information according to art. 247 and art. 240b of the Commercial Code

1. Information under art. 247 of the Commercial Code

Information concerning the activity and the condition of the Company and explanations on the financial report

In Chapter II, item 2 the Board of Directors has included information concerning the activities of the Company and has provided explanations and clarifications related to the financial report.

Remuneration received in total throughout the year from the Members of the Board

The remuneration and other short-term income of the Board of Directors for 2016 amounts to 1,138 thousand BGN (2015: 1,154 thousand BGN) and are as follows:
- Current – 884 thousand BGN (2015: 889 thousand BGN)
- Tantiems – 254 thousand BGN (215: 265 thousand BGN)

Acquired, owned and transferred shares and bonds of the Company by the Board of Directors
The acquired, owned and transferred shares by the Board of Directors are as follows:

Members of the	31.12.2016	31.12.2015

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

The company has not issued any bonds.

Rights of the members of the Board to acuqire shares and bonds

The Articles of incorporation of Sopharma AD do not envisage limitations for the right of the members of the Board to acquire shares and bonds of the Company.

Participation of board members in companies as partners, ownership of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives as procurators, managers or board members

Share in the capital of other companies amounting to more than 25% owned by 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 headquarters in Sofia, 12 "Pozitano" Str.;
2. "Telecomplect invest" AD, UIC 201653294, with headquarters in Sofia, 9 "Slaveikov" Str.
3. "Telecomplect" AD, UIC 831643753, with headquarters in Sofia, 5 "Lachezar Stanchev" Str.
4. "Sopharma Buildings" REIT, UIC 175346309, with headquarters in Sofia, 5 "Lachezar Stanchev" Str.;
5. “Sopharma Properties” REIT, UIC 175059266, with headquarters in Sofia, 5 "Lachezar Stanchev" Str., Building A;
6. "Sofprint Group" AD, UIC 175413277 with seat and headquarters: Sofia, 12 "Pozitano" Str.;

7. "Sofconsult Group" AD, UIC 175413245, with seat and headquarters: Sofia, 12 "Pozitano" Str.;
8. "Sofia Inform" AD, UIC 121303553, with headquarters in Sofia, 12 "Pozitano" Str;.
9. "Elpharma" AD, UIC 130299513, with seat and headquarters: Sofia, 16 „Iliensko shose“ Str.;
10. “Sopharma Trading” AD, UIC 103267194, with seat and headquarters: Sofia, 5 "Lachezar Stanchev" Str. ;
11. “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str;

Vessela Lyubenova 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 headquarters: Sofia, 9 "P. R. Slaveykov" Square;
2. "Eco Solar Invest" OOD, UIC 201634905, with seat and headquarters: Sofia, 48 "Alabin" Str;
3. “Aquatex” OOD, UIC 203934379, with seat and headquarters: Sofia, 9 "P. R. Slaveykov" Square.

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

1. "Sofservice" OOD, UIC 131407109, with headquarters in Sofia, 339, “Tsar Boris III” Blvd;
2. "Alpha In" EOOD, UIC 131156322, with headquarters in Sofia, 1B “Dimcho Debelianov” Str.

Andrey Lyudmilov 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 headquarters in Plovdiv, 36 "Gladstone" Str.
2. "CFM" OOD, UIC 131304899, with headquarters 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 headquarters in Stefanovo Village, Lovech District.
2. "Sirius" OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 "Apriltsi" Str.
3. OKP Investments OOD, UIC 204361991, with headwuarters in Sofia, 15 “Krushova gradina” Str.

Participation of Board members in the management of other companies or cooperatives as procurators, managers or board members

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

1. "Elpharma" AD, UIC 130299513, with seat and headquarters: Sofia, 16 „Iliensko shose" Str. – member of the Board of Directors and Executive Director.
2. "Sopharma Trading" AD, UIC 103267194, with headquarters in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
3. "Unipharm" AD, UIC 831537465, with headquarters in Sofia, 3 "Trajko Stanoev" Str. – Chairman of the Supervisory Board.
4. "Kaliman - RT" AD, UIC 121120513, with headquarters in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
5. "Telecomplect" AD, UIC 831643753, with address management in Sofia, 5 "Lachezar Stanchev" Str., Building A – Chairman of the Supervisory Board.
6. "Doverie United Holding" AD, UIC 121575489, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board, Vice-President.
7. "Doverie Capital" AD, UIC 130362127, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board.
8. "Medica" AD, UIC 000000993, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Board of Directors.
9. "Riton P" AD, UIC 822106398, with headquarters in Panagyurishte, 30 "Krastio Geshanov" Str. – Member of the Board of Directors.
10. "Sopharma" AD, UIC 831902088, with seat and headquarters: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors and Executive Director.

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

1. "Elpharma" AD, UIC 130299513, with seat and headquarters: Sofia, 16 „Iliensko shose" Str. - member of the Board of Directors;
2. "VLS" AD, UIC 175082980, with headquarters in Sofia, Slaveikov Square 9 - member of the Board of Directors;
3. "VES elekroinvest systems" EOOD, UIC 201712700, with seat and headquarters: Sofia, 9 "P. R. Slaveykov" Square - Manager.
4. "Sopharma" AD, UIC 831902088, with seat and headquarters: 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 headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.

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

1. "Simol" EAD, UIC 101795403, with headquarters in Blagoevgrad, 3 "Georgy Izmirliev" Square – Chairman of the Board of Directors
2. "Vizaton" OOD, UIC 202235166, with seat and headquarters: Sofia, Sredets, 225A "Tsar Boris III" Blvd – Chairman of the Board;
3. ZAD "Energy", UIC 831040933, with seat and headquarters: Sofia, 33 "Knyaz Dondukov" Blvd - member of the Board of Directors.
4. “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.
5. “Expat Beta” REIT, UIC 200059488, with seat and headquarters: Sofia, 96A Rakovski Str. – member of the Board of Directors.

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

1. "Sirius" OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 "Apriltsi" Str. – member of the Management Board;
2. “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.
3. “Unipharm” AD, UIC 831537465, with headquarters in Sofia, Darvenitsa district, 3 Traiko Stanoev Str. – member of the Board of Directors.
4. “Melnitsa Stefanovo Village” EOOD, UIC 201045146, with headquarters: Stafanovo village, Lovech district.
5. OKP Investments OOD, UIC 204361991, with headwuarters in Sofia, 15 “Krushova gradina” Str.

2.Information under art. 240b of the Commercial Code on the obligation of Board members to notify in writing the Board of Directors or the Management Board when they or their related parties conclude contracts with the company that go beyond its usual activity or substantially deviate from market conditions

In 2016, there are no contracts that go beyond the ordinary business of the company or significantly deviate from market conditions.

V. Information from Annex 10 to art. 32, para 1, item 2 of Regulation 2 of POSA

1. Information given in value or quantitative terms about the main categories of goods, products and / or services provided, including their share in sales revenue of Sopharma AD in general and changes in the reporting year

The information is included in Section III, item 2 of this document. The Company does not publish quantitative information due to the specifics of the production.

2. Information about the revenues allocated by separate categories of activities, domestic and foreign markets and information on sources for supply of materials needed for production of goods or the provision of services with the degree of dependence on any individual seller or buyer / user, in case their share exceeds 10 per cent of the expenses or sales revenue, provide information for each person for his share in sales or purchases and links with the issuer

Information about the revenues allocated by separate categories of activities, domestic and foreign markets are provided in Section III item 2 of this report.

Major customers of the company with a share over 10% in sales revenues for 2016 are Sopharma Trading AD with 38% share, Delta Sales Ltd. with 35% share.

- Sopharma Trading AD is headquartered in Sofia district Nadezhda, bul. Rozhen № 16, its main activity is wholesale and retail of medicines and sanitary products. Sopharma Trading AD is a subsidiary of Sopharma AD, acting as a the "pre-wholesaler" in the process of realization of its production.
- Delta Sales Ltd. With headquarters 45 PALL Mall London UK, with main activity trade with medicines abroad. Relations between the company and Sopharma AD are governed by a sales agreement.

Materials used exceed 3500 items which have a dynamic structure and diverse origin (synthetic, vegetable), physical state (liquid, solid, gaseous).

The largest share of the cost of the basic materials are active substances - 52%, followed by packaging materials - 17%, liquid and solid chemicals - 16%, ampoules - 5% and others.

The main share of raw materials are secured by imports. Sources of supply are validated manufacturers, which is in line with regulatory requirements and aims to maintain consistency and traceability in terms of quality. Respective companies contractors operate according to the requirements of GMP, GDP and other industry standards. Sopharma is working with a number of Bulgarian and foreign suppliers as their selection is done according to procedure developed in-house and aims to provide an alternative security in the supply and competitive flexibility in trade relations. Non-negotiable conditions that Sopharma AD implies in the negotiation process are: consistent quality, competitive prices and attractive payment terms, rhythmic and timely deliveries which prevent the accumulation of inventories on the one hand, while guaranteeing the regularity of the production process.

2016 none of the suppliers' share exceeds 10% of the total cost of services rendered and materials.

3. Information on significant transactions concluded

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

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

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

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

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

On an EGM which will take place on 24 April 2017 the Board of Directors has proposed for voting the following transactions:

- Rental contract under which Sopharma AD will rent property from Sopharma properties REIT owned by the latter, representing an Office-1B-B18, on floor 18 +in building B, of the administrative-commercial centre with garages „Sopharma Business Towers“, based on 5, Lachezar Stanchev, Str. Office-1B-B18 with gross area of 189.91 sq.m., 165.14 sq.m. rental area 24.77 sq.m. common area.
- Sales transaction with medicinal products between Sopharma AD as a producer and seller of the products and TOO Sopharma Kazahstan as a buyer, under which the Company will incur a receivable from a subsidiary totalling 20,269 thousand EUR. The transaction will be concluded for a term of 5 years.

Sopharma AD has not concluded transactions outside of its main acitivities or that substantially deviate from the market conditions.

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

In 2016 no events and indicators of unusual nature.

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

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

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

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

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

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

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

Long-term loans by Sopharma AD to associated companies:

- Contractual amount 16 177 thousand EUR; interest rate - 3.5%; maturity – 1 December 2018; balance at 31 December 2016 - 9797 thousand BGN

Long-term loans to subsidiaries:

- Contractual amount 500 thousand EUR; interest rate - 6.6%; maturity – March 1 2019; Balance at 31 December 2016 - 983 thousand BGN

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

Provided current loans by Sopharma AD to related companies:

Companies related through key management:

- Contractual amount 12 731 thousand EUR; interest rate - 3.05%; maturity – 12 December 2017; balance at 31 December 2016 - 560 thousand BGN;
- Contractual amount 8 133 thousand EUR; interest rate - 4.10%; maturity - 31.12.2017; Balance at 31.12.2016 - 6292 BGN;
- Contractual amount 6 000 BGN; interest rate - 3.50%; maturity - 31.12.2017; balance at 31.12.2016 – 4 472 thousand BGN
- Contractual amount 1 300 BGN; interest rate - 5.50%; maturity - 31.12.2017; balance at 31.12.2016 - 0.
- Contractual amount 190 BGN; interest rate - 3.50%; maturity - 31.12.2017; balance at 31.12.2016 - 0.

Subsidiaries:

- Contractual amount 2 770 thousand EUR; interest rate - 4.70%; maturity - 31.12.2017; balance at 31.12.2016 – 4 957 BGN;
- Contractual amount 7667 BGN; interest rate - 4.10%; maturity - 31.12.2017; balance at 31.12.2016 - 2670 BGN;
- Contractual amount 600 BGN; interest rate - 3.50%; maturity - 31.12.2017; balance at 31.12.2016 - 1 thousand BGN

Other related parties:

- Contractual amount 190 BGN; interest rate - 3.50%; maturity - 31.12.2017; balance at 31.12.2016 - 96 thousand BGN

Provided short-term loans to related parties are to help finance the activities of these companies for achieving their strategic purposes. They are secured by pledges of shares and securities.

Information on the loans of subsidiaries will be available in the consolidated financial statements.

The commercial loans provided by Sopharma AD to third parties are as follows:

- Contractual amount BGN 1 873 thousand; interest rate – 4,30%; maturity – 31.12.2017; balance as at 31.12.2016– BGN 1 769 thousand;
- Contractual amount BGN 949 thousand; interest rate – 4,70%; maturity – 31.12.2017; balance as at 31.12.2016 – BGN 546 thousand;
- Contractual amount BGN 412 thousand; interest rate – 4,50%; maturity – 31.12.2017; balance as at 31.12.2016 – BGN 130 thousand.

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

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

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

There are no published forecasts of financial results.

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

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

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

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

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

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

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

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

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

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

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

the amount of accrued and paid by the Company remuneration of the Board of Directors and the Procurator

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

Information about the amount of remuneration of the Board of Directors of Sopharma AD is referred to in Section IV of this report - information under Art. 247 of the Commercial Code, para 2.

- deferred or contingent remuneration during the year, even if the remuneration is due at a later time

On the grounds of Art. 24 para. 3, part B of the Articles of Incorporation of the Company to the CEO of the company is entitled to an additional remuneration of 1% of the profit realized in 2015 according to the adopted Annual Financial Report by the General Meeting of

Shareholders. According to Article 7.2, para. 3 of the Remuneration policy, 40% of the additional remuneration to the CEO amounting to 101 415.43 BGN matures in 2019.

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

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

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

Information held by members of the Board of Directors shares of Sopharma AD is listed in section IV of this report - information Art.247a paragraph 2 of the Commercial Code.

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

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

No such arrangements.

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

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

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

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

VI. Information Appendix 11 to Article 32, paragraph 1, item 4 of Ordinance 2 of POSA

Information regarding the public company – Sopharma AD

1. Structure of the capital of the Company, including securities not admitted to trading on a regulated market in Bulgaria or another Member State, indication of the different classes of shares, the rights and obligations of each class of shares and the portion of the total capital represented by each class.

The capital of the Company is divided into 134 797 899 registered dematerialized shares each with a nominal value of 1.00 BGN. Each share entitles to one vote at a General Meeting of Shareholders, right to dividends and a liquidation share in proportion to its nominal value.

Structure of the capital of Sopharma AD as at 31 December 2016:

Physical persons	5 038	-	5 276 199 shares	- 3,91%
Legal persons	166	-	129 521 700 shares	- 96,09%

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The capital of the Company may be increased by a decision of the General Meeting of Shareholders adopted by majority as required by law.

In case of capital increase, each Shareholder has the right to acquire shares of the new emission, which correspond to their share in the capital before the increase.

A shareholder cannot participate in person or by proxy in voting related to:

- claims against them.
- taking action or refusal to act, related to the fulfillment of obligations to the Company.
- taking of decision under art. 114, par. 1 of POSA, in case they are an interested party within the meaning of POSA.

The shares of the Company are traded on the Bulgarian Stock Exchange – Sofia AD, Main Market (BSE), Segment PREMIUM and on the official market of Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BGBX40 and BGTR30 of BSE - 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

	31.12.2016	**31.12.2015**
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	129 393 992	129 379 961
Number of shares outstanding at the end of the period	129 135 485	129 578 603
Earnings per share in BGN	0,288	0,196
Price per share at the end of the period in BGN	2,992	2,72
Price/Earnings ratio (P/E)	10,39	13,88
Book value per share in BGN	3,58	3,331
Price/Book value ratio (P/B)	0,84	0,82
Sales per share in BGN	1,269	1,341
Price per share / Sales per share(P/S)	2,36	2,03
Market capitalization in BGN	403 315 314	366 650 285

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

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

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

The replacement of dematerialized registered shares with bearer shares and placement of restrictions on their transfer is allowed after removal of the Company from the register of the Financial Supervision Commission.

Transactions with dematerialized shares of the Company may be made only on the regulated markets of securities by investment intermediaries, as well as in other way, regulated by law.

The transfer of registered dematerialized shares, issued by the Company, is effective at the time of entering of the transaction in the register of the Central Depository, proving the rights to these shares. The transfer of registered shares is in accordance with the requirements of current legislation.

3. Information regarding the direct and indirect ownership of 5 percent or more of the voting rights at the General Meeting of the Company, including details of the Shareholders, the size of their shareholding and the type of shareholding.

Shareholders holding more than 5 percent of the Company's capital as at 31 December 2016 are as follows:

	31.12.2016	**31.12.2015**
„Donev Investment Holding" AD,		
UIC 0831915121,		
Sofia, 12 Positano Str.	33 404 466 / 24,78% /	33 368 498 / 24,75%/
"Telecomplect invest" AD,		
UIC 201653294,		
Sofia, 9 Slaveikov Square		
Shareholding – direct	27 156 752 / 20,15%/	27 156 752 / 20,15%/
„Rompharm Company" OOD		
UIC 200732874, Sofia,		
Mladost,		
7 Boian Damianov Str.	24 313 355 / 18,04%/	24 313 355 / 18,04%/
ZUPF "Aliantz Bulgaria"		
UIC 130477720, Sofia,		
42 Damian Gruev Str.	6 970 395 / 5,17%/	6 726 310 / 4,99%/

4. No information about shareholders with special control rights.

5. No designated system for control of exercising votes when employees of the Company are also its shareholders and when the control is not exercised directly by them:

There is no special system for control of voting in the event that employees of the Company are also its shareholders and when the control is not exercised directly by them.

The Shareholders may attend the General Meeting either personally or through an authorized representative. Several Shareholders may authorize a joint representative.

To participate in the General Meeting of Shareholders the Shareholders shall identify themselves with the statutory document certifying their rights on the shares they own. Representatives of the General Meeting of Shareholders shall identify themselves with an explicit written authorization having a minimum content set by Decree.

The voting right shall be exercised by persons who acquired shares not later than 14 days prior to the General Meeting.

6. No restrictions on the voting rights, such as limitations on the voting rights of Shareholders by a certain percentage or number of votes, deadlines for exercising the voting rights or systems in which with the cooperation of the Company the financial rights attached to shares are separated from the ownership of shares.

7. No agreements between Shareholders which are known to the Company and which may lead to restrictions on the transfer of shares or voting right.

8. The provisions concerning the appointment and dismissal of members of the governing bodies of the Company and on the making of amendments to the Articles of Association.

Members of the Board of Directors may be physical or legal persons meeting the requirements of Article 234 of the Commercial Code and Article 116a, paragraph 2 of the Public Offering of Securities.

When a member of the Board of Directors is a legal entity, it shall designate a representative / and / for the performance of duties in the Board. The legal entity is jointly and unlimitedly liable with the other members of the Board for the obligations arising from the actions of his representative.

Physical persons who represent legal persons - members of the Board of Directors must meet the requirements of Art. 234, para 2 of the CA.

Members of the Board of Directors cannot be persons who were members of management or supervisory body of a company terminated due to bankruptcy in the last two years preceding the date of the declaration of insolvency, if unsatisfied creditors.

A person who has been governor, member of the management or supervisory body of a company, which was established by an effective penalty decree defaulting on creation and preservation of its defined levels of stocks under the Law on stocks of oil and oil products cannot be a member of the Board.
At least one third of members of the Board of Directors must be independent. The independent member of the Board cannot be:

- an employee of the public company;
- a shareholder, who owns directly or through related parties, at least 25 percent of the votes in the General Meeting or in a related company;a person who has a long-term business relation to the public company;
- a person who is in permanent trade relations with the public company;
- a member of the management or supervisory body, procurator or employee of a company or other entity.
- a person connected with another member of the management or supervisory body of the public company.

Members of the Board of Directors can be reelected without limitation.

With changes in legislation, the next General Meeting of Shareholders shall decide on amending the Articles of incorporation in order to align its provisions with those of existing regulations. By making this decision, the affected versions of the Articles of incorporation shall be interpreted in accordance with the Constitution and laws of the country.

The Articles of Incorporation shall be amended by the General Meeting of Shareholders with a majority of 2/3 / two thirds / of the represented at the General Meeting capital. The current Articles of incorporation was registered in the Commercial Register under number № 20160714152939.

9. *Powers of the governing bodies of the company, including the right to decide on the issue and redemption of shares*

The powers of the Board of Directors is regulated by the Articles of Incorporation. The decisions that may be taken by a qualified majority of two thirds of the members of the Board of Directors to be valid are defined.

The Board of Directors is authorized to buy back shares under certain conditions, according to the decisions of the General Meeting held on 23.06.2010, EGM of 30.11.2011 on the EGM of 01.11.2012 and EGM of 28.02.2013.

10. ***Significant contracts of the Company that take effect, are amended or terminated due to a change in control of the company in a mandatory tender offer and the effects thereof, except where disclosure of this information may cause serious damage to the company; exemption under the preceding sentence shall not apply in cases where the company is obliged to disclose information under the Law***

    There are no such contracts, amendments or terminations.

11. ***Agreements between the Company and its management bodies or employees for payment of compensation upon retirement or dismissal without legal grounds or upon termination of employment for reasons related to a tender offering.***

There are no such agreements.

Ognian Donev, PhD
/Executive Director/

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

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

I. Information regarding compliance where appropriate:

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

b) other Corporate Governance Code;

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

Sopharma AD has adopted by a Decision of the Board of Directors and continues to respect the established in October 2007, with subsequent amendments in 2012 and 2016, National Corporate Governance Code / NCGC /, approved by the deputy chairman of the Financial Supervision Commission. The good corporate governance is a set of well-balanced relationships between management bodies of the Company, its shareholders and all stakeholders - employees, business partners, creditors of the company, and potential future investors and the general public.

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

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

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

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

The actions of the management of Sopharma AD are in the direction of strengthening the principles of good corporate governance, enhancing the confidence of shareholders, investors and those interested in the management and operations of the Company.

The Board of Directors of Sopharma AD complies with the Good corporate governance program, which is consistent with existing regulations, internationally recognized standards of good corporate governance and the National Corporate Governance Code.

The Board of Directors approves Policy on disclosure of information in accordance with legal requirements and regulations. Sopharma AD is involved in the formation of the Association "National Committee on Corporate Governance."

1. Company management- BOARD OF DIRECTORS

1.1. Functions and duties

The Board of Directors of Sopharma AD manages independently and responsibly the Company in accordance with the established vision, goals and strategies of the Company and shareholders' interests. The Members of the Board of Directors give guarantee for their management in the amount of their quarterly gross remuneration, determined by the General Meeting of Shareholders.

During its mandate the Board of Directors shall be guided in its activities by the generally accepted principles of integrity, management and professional competence. The Board of Directors observe the Code of Ethics of the Company adopted by a protocol of the Board of Directors of 26.03.2007.

The management of Sopharma AD, represented by Board of Directors also:

• monitors the results of the Company's activities and, if necessary, initiate changes in the management;

• treats equally all shareholders, acts in their own interest and with due diligence;

• provides and controls the integrated functioning of the accounting and financial reporting;

• is responsible for the establishment and proper functioning of the financial information system of the Company.

• gives guidelines, approves and controls the implementation of the business plan of the Company, material transactions and other activities set out in the statutes of the Company.

reports on its activities to the General Meeting of Shareholders, by preparing an Annual report on its activities and submitting it for adoption by the General Meeting.

1.2. Appointment and dismissal of members of the Board of Directors

General Meeting of Shareholders elects and dismisses members of the Board of Directors of Sopharma AD, according to the law and the statutes of the Company, subject to the principles of continuity and sustainability of the work of the Board of Directors. All members meet the legal requirements for taking up their duties.

By proposals for election of new members of the Board of Directors, they shall comply with the principles of compliance competence of candidates to the character of the Company's activities.

Their duties and tasks, the criteria for their remuneration, their duties of loyalty to the Company and grounds for dismissal are determined In the contracts for management, concluded with the Board members. Management contracts with the Board of Directors or with the Executive Director comply with the Articles of Association and with the prepared by the Board of Directors Policy for the remuneration of the Board of Directors, which is approved by the General Meeting of Shareholders on June 21, 2013 .

1.3. Structure and competence

The number of members and the structure of the Board of Directors are set out in the Articles of Association. The company is managed and represented by a Board of Directors, which consists of five individuals, meeting the requirements of Article 234 of the Commercial Code and Article 116a, paragraph 2 of the Public Offering of Securities Act.

The members chosen by the General Assembly Board of Directors is structured in a way that ensures professionalism, impartiality and independence of decisions and actions of its members in the management of the Company.

The Board ensures proper division of tasks and responsibilities among its members. The main function of independent directors is to control the actions of the executive management and to participate effectively in the work of the Company in accordance with the interests and rights of the shareholders. The main functions of the Board of Directors and the number of independent members enshrined in the Article of Association of the Company. At the Board of Directors of Sopharma AD there are two independent members.

The Members of the Board of Directors of Sopharma AD have appropriate knowledge and experience required for the position they take. After their election, the new members of the Board of Directors are introduced to fundamental legal and financial issues related to the Company. The company promotes training of members of the Board of Directors.

Members of the Board of Directors has sufficient time to perform their tasks and duties. The Articles of Association of the Company determined the number of companies in which members of the Board of Directors can occupy managerial positions, because the activities of the Board members cannot be restricted.

The election of the Board of Directors of the Company is through a transparent procedure which should ensure timely and sufficient information on the personal and professional qualities of the candidates. The number of consecutive mandates of the Board of Directors ensures efficient operation of the Company and compliance with the legal requirements. According to the Articles of Association the members of the Board of Directors may be re-elected without limitation.

1.4. Remuneration of the Board of Directors

The Board of Directors of Sopharma AD has developed and implemented Policies for the formation of the remuneration of the Board of Directors, adopted by the General Meeting of Shareholders on June 21, 2013. The remuneration policy was developed in accordance with Decree № 48 of March 20, 2013 of the financial supervision Commission and with the Public offering of securities Act. The size and structure of remuneration are determined by the General Meeting of the Company.

In accordance with legal requirements and best practice of corporate governance, the size and structure of the remuneration account:

• responsibilities and contributions of each member of the Board of Directors on the activities and results of the Company. Members of the Board of Directors receive a fixed remuneration as determined by the General Meeting of Shareholders amount paid under the terms and conditions of agreements concluded between them and the Company management contracts.

• The ability to select and retain qualified and loyal members of the Board of Directors of Sopharma AD. These requirements are implemented through policy formation of the remuneration of the Board of Directors adopted by the General Meeting of Shareholders on June 21, 2013

• The need for conformity to the interests of the members of the Board of Directors and long-term interests of the Company. The remuneration of the members of the Board of Directors are formed based on the results of the Company and are consistent with the business strategy, objectives, values and long-term interests of the Company.

• The Executive member of the Board of Directors receives fixed remuneration as determined by the General Meeting of Shareholders, amount paid under the terms and conditions of, the signed between him and the Company, management contract. According to the Statute of the Company, when there is positive financial result /profit/ to the Company and a decision of the General Assembly, the Executive Director is entitled to receive a one-time remuneration of up to one percent of the net profit of the Company.

• Salaries and bonuses of the members of the Board of Directors and the Executive Director of the Company must be approved by the General Meeting of Shareholders.

Until now, the Executive Board member have not been provided with shares or other financial instruments.

Members of the Board of Directors receive a fixed remuneration as determined by the General Meeting of Shareholders amount paid under the terms and conditions of agreements concluded between them and the Company management contracts.

With the qualified majority, the Board of Directors may take a decision to determine the circle of employees, among which may be distributed as bonus cash amount to 2% of the profit of the Company for each financial year. The same is possible only if there is a decision of the General Meeting of Shareholders to determine the specific amount of the bonus amount taken at a meeting, which approved the corresponding audited annual financial statements and there is a positive financial result / profit /.

The disclosure of the information about the remuneration of the Board of Directors is in accordance with legal regulations and the Statues of the Company.

The remuneration of the members of the Board is presented in the financial statements, the Report on the implementation of the remuneration policy of the Board of Directors and published on the website.

1.5. Conflict of interests

Members of the Board of Directors shall endeavor to avoid and prevent real or potential conflict of interest.

Procedures for preventing and disclosing conflicts of interest are regulated by the Statute of Sopharma AD, the Code of Ethics of the Company, as well as instructions and explanations about the duties and responsibilities of insiders possessing inside information in Sopharma AD in connection with the requirements of the Law of enforcement measures against market abuse with financial instruments.

Members of the Board of Directors shall endeavor to disclose immediately conflicts of interest and provide shareholders access to information about transactions between the Company and members of the Board of Directors or related parties.

Any conflict of interests in the Company shall be disclosed to the Board of Directors.

Potential conflict of interest exists when the Company intends to carry out a transaction with a legal entity in which the member of the Board of Directors or related (interested) parties thereto have a financial interest.

1.6. Committees

The work of the Board of Directors is assisted by committees and The Board of Directors determines the need for setting up according to the specifics of the Company.

In accordance with the requirements of applicable law, the Board of Directors proposes to the General Meeting of Shareholders to elect an audit committee that complies with the legal requirements and the particular needs of the Company.

The Committees are created based on the written terms of reference, scope of tasks, operation and reporting procedures. The Audit Committee of Sopharma AD consists of three people with three-year mandate determined by the General Meeting of Shareholders. The members of the Audit Committee meet the requirements of Article 40, paragraph 3 and 4 of the Independent financial audit Act.

2. INDEPENDENT FINANCIAL AUDIT AND INTERNAL CONTROL

The Audit Committee of Sopharma AD and its members as individuals charged with governance, monitor the internal audit and the overall relationship with the external auditor, including other non-audit services, provided by the auditor of the Company.

The management of Sopharma AD, assisted by the Audit Committee shall motivate its proposal for selection of auditor before General Meeting of Shareholders, guided by established professional requirements.

The management of Sopharma AD ensures compliance with the applicable to the independent financial audit law.

By selecting and appointing an external auditor, a rotation principle applies. The auditors are elected by the General Meeting of Shareholders for each financial year.

Sopharma AD has established an internal control system that identifies risks associated with the operation of the Company and supports their effective management. It ensures the effective functioning of the reporting and disclosure of information.

3. PROTECTION OF SHAREHOLDERS

The management of Sopharma AD, represented by the Board of Directors ensures equal treatment of all shareholders, including minority and foreign shareholders and protects their rights and facilitates them within the limits permitted by applicable law and in accordance with the Statutes of the Company. The Management provides information regarding their rights to all shareholders.

3.1. General Meeting of Shareholders

All shareholders are informed of the rules under which shall be convened and held General meetings of shareholders, including voting procedures. The corporate management of Sopharma AD provides sufficient and timely information concerning the date and venue of the meeting, as well as full information on the matters to be discussed and decided at the meeting.

During the General Assembly, the management of Sopharma AD, provides the right of all shareholders to express their opinions and ask questions.

All shareholders are entitled to participate in the General Meeting of Shareholders and to express their views:

- Shareholders entitled to vote are eligible to exercise their right at the General Meeting of the Company in person or by proxy, as well as by correspondence or by electronic means.
- The Management of the Company exercises effective control, establish the necessary organization to vote on the authorized persons in accordance with the instructions of the shareholder or authorized by the law.
- The Management of the Company organizes and conducts regular and extraordinary General meetings of shareholders of the Company in accordance with statutory procedures to ensure equal treatment of all shareholders and the right of each shareholder to express its views on the items on the agenda of the General Assembly.
- The Management of the Company organizes the procedures and conditions for holding the General Meeting of Shareholders in a manner that does not impede or unnecessarily expensive vote.
- The Management takes action to encourage the participation of shareholders at the General Meeting of shareholders, incl. by providing opportunities for telepresence by technical means (incl. Internet) where this is possible and necessary, and does not contradict the NCGC.

All members of the management are trying to attend the General Meetings of Shareholders.

3.2. Materials of the General Meeting of Shareholders

Documentation and materials related to the agenda of the General Assembly are concrete and clear and do not mislead shareholders. Any suggestions on major corporate events are presented as separate items on the agenda of the General Assembly, including proposal for profit distribution.

The Company maintains on its website a special section on the rights of shareholders and their participation in the General Meeting of Shareholders.

The Company's management assists shareholders, entitled under current law to include additional items and propose decisions on already included in the agenda of the General Assembly.

3.3. The Company's management guarantees the right of shareholders to be informed about the decisions of the General Meeting of Shareholders.

3.4. Uniform treatment of the shareholders of one class

All shareholders of the same class are treated equally.

All shares within a class give equal rights to the shareholders of the same class.

3.5. The management of Sopharma AD ensure that sufficient information to investors about the rights attaching to the shares of each class prior to their acquisition.

3.6. Consultations on shareholders on major shareholder rights

Within the limits permitted by applicable law and in accordance with the Statutes of the company, corporate governance does not preclude shareholders, including institutional ones, to consult each other on matters relating to their basic shareholder rights in a way that does not admit committing abuses.

3.7. Transactions of shareholders with control rights and transactions of abuse

The Management of Sopharma AD does not allow carrying out transactions with shareholders with control rights that violate the rights and / or legitimate interests of other shareholders, including the terms negotiated with itself.

4. DISCLOSURE OF INFORMATION

The Company's management approved Policy on disclosure of information in accordance with legal requirements and regulations.

In accordance with the adopted Policy of disclosure the Management establishes and maintains a system of disclosure.

The system of disclosure ensures equal access to information (shareholders, stakeholders, Investment Community) and prevents misuse of inside information.

The Company's management also:

• ensures that the system of disclosure provides complete, timely, accurate and understandable information that enables objective and informed decisions and assessments.

• timely discloses capital structure of the company and the agreements that lead to scrutiny under its rules on disclosure of information

• in accordance with the current legislation and the Statutes of the Company, ensures that the rules and procedures under which the acquisition of corporate control and extraordinary transactions such as mergers and sales of substantial portions of the assets are made, are clearly and timely disclosed.

• approves and monitors compliance with internal rules for the preparation of annual and interim reports and procedures for disclosure

• has adopted internal rules that provide timely disclosure of any significant periodic and occasional information about the Company, its management, its corporate manuals, operational activity, shareholding structure.

As part of the disclosure, Sopharma AD maintains a website of a company with established content, scope and frequency of information disclosed. The website of the Company is: www.sopharmagroup.com

The information disclosed by the company web site includes:

- basic identifying the Company's commercial and corporate information;
- up-to-date information on shareholding structure;

- Statutes of the Company and adopted policies related to the activities and functioning of the Company;
- information on the structure and composition of the management bodies of the Company, as well as basic information about their members, including information about committees;
- financial statements for the last 10 years;
- materials for the upcoming General Meetings of Shareholders, as well as additional ones received by law;
- information on decisions of General meetings of shareholders at least the last three years incl. information on dividends distributed by the Company for that period;
- information about the auditors;
- information about upcoming events;
- information on issued shares and other financial instruments;
- important information related to the Company;
- information about shareholder rights including sufficient information on the right of shareholders to request inclusion of items and propose decisions on already included in the Agenda of the General Assembly under article 223a of the Commercial Code.
- information contact about the Director of Investor Relations of the Company.

The company maintains also an English version of the corporate website with similar content.

The Company periodically discloses information relating to Corporate governance. Disclosure of Corporate governance is carried out in accordance with the principle "comply and explain".

The Management provides disclosure of any significant periodic and occasional information about the Company, through channels that provides equal and timely access to relevant information by users.

5. STAKEHOLDERS

The Management provides effective interaction with stakeholders. This category includes certain groups of persons who directly affect the Company and which in turn could affect its activities, including suppliers, customers, employees, creditors, civil society groups and others. The Company identifies who are the stakeholders with respect to its activities based on their degree of influence, role and relationship to sustainable development.

In its Policy towards stakeholders, the Management complies with legal requirements and principles of transparency, accountability and business ethics.

In accordance with this policy, the Management of Sopharma AD has developed specific rules for addressing stakeholder interests, тhat rules should ensure their involvement in solving specific issues, that require their input. These rules ensure balance between the development of the Company's economic, social and ecological environment in which it operates.

The management maintains effective relationships with stakeholders. Periodically, in accordance with legal norms and international best practice for disclosure of non-financial information, the Company informs the stakeholders about the economic, social and environmental related issues, such as combating corruption; working with employees, suppliers and customers; corporate social responsibility; environmental Protection.

The Management guarantees the right for timely access to relevant, sufficient and reliable information on the company when stakeholders involved in corporate governance.

The Management maintains effective relationships with stakeholders.

Disclosure

The Board of Directors approved Policy on disclosure of information in accordance with legal requirements and regulations. The system of disclosure ensures equal access to information (shareholders, stakeholders, Investment Community) and prevents dealing with inside information and market manipulation in financial instruments. Sopharma AD ensures that the system of disclosure provides complete, timely, accurate and understandable information that enables objective and informed decisions and assessments.

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

In 2016 the Management of Sopharma AD disclosed publicly regulated information through its provision of the Financial Supervision Commission and the public. Regulated information shall be disclosed to the public in a way that ensures it reaches the widest possible audience simultaneously and in a way that does not discriminate them.

Sopharma AD uses X3NEWS information system, based on the contract with Service Financial Markets Ltd., which can ensure effective dissemination of regulated information to the public in all Member States.

The Board of Directors of Sopharma AD prepares a Report on the Implementation of the remuneration policy of the members of the Board of Directors in 2016. The report reveals how the remuneration policy is being applied, paying special attention to avoid creating incentives for excessive risk taking, conflict of interest or other conduct leading to adverse effects. The size and structure of remuneration are determined by the General Meeting of the Company.

General Meeting of Shareholders

The Management takes action to encourage the participation of shareholders at the General Meeting of shareholders, incl. by providing opportunities for telepresence by technical means (incl. Internet) where this is possible and necessary, and does not make the voting more difficult or unnecessary expensive.

Processes and procedures for holding General Meetings of Shareholders ensure equal treatment of all shareholders, including minority and foreign, and protect their interests.

Materials related to the General Meeting of Shareholders are available to the shareholders on the day of the announcement of the invitation for it at the Financial Supervision Commission, on the company's website: www.sopharmagroup.com at least 30 days before the date of holding the General Meeting and, upon request, provided free of charge to shareholders.

Shareholders entitled to vote, may exercise their right at the General Meeting of Shareholders in person or by proxy, as well as by correspondence or by electronic means. The order of participation of shareholders at the General Meeting is announced in the invitation.

Sopharma AD submits the Protocol from the General Assembly in three days from holding of, to the Financial Supervision Commission, Bulgarian Stock Exchange-Sofia, the public and at the company's website: www.sopharmagroup.com.

In 2016 Sopharma AD held one General Meeting of Shareholders.

The Board of Directors believes that they have created prerequisites for sufficient transparency in relationships with investors, financial analysts, media and the capital market.

II. Explaination which parts of the Code of Corporate Governance under p. 1, letter "a" or "b" of art. 100 "H" par. 8 are not complied with and the reasons for it accordingly when the issuer has decided not to invoke any of the rules of Corporate governance code - warranted

Sopharma AD complies with all parts of the corporate governance code under p. 1, letter "a", except Chapter VI "Institutional investors, markets in financial instruments and other intermediaries", which is not applicable to the Company.

III. Description of the main features of the internal control and risk management of the issuer in relation to the financial reporting process

The internal control system of financial reporting and accounting of Sopharma AD was developed as a result of studies of good reporting and control practices in Bulgaria and major pharmaceutical groups, and subject to national legal requirements, incl. for listed companies on regulated markets and groups. It is in a constant process of monitoring by the Management and further development and improvement.

The internal control system of financial reporting and accounting of Sopharma AD is a complex of behavioral and technical principles, rules, procedures and control activities, which are specially developed and adapted to the specifics of the Company, its activities and reporting system. It is aimed at:

• providing ongoing monitoring and reporting activities targeted towards their goals and expectations of its various users and achieve the necessary efficiency and effectiveness, incl. the use of resources employed; and

• ensuring adequate and timely address the identified business risks that have an impact on the financial, managerial and operational reporting.

In particular, it is developed in a way that creates comfort leadership that:

• The Company complies with applicable legal requirements in accounting, reporting and other directly related fields, particularly the requirements of the Accounting Act and International Financial Reporting Standards;

• the Company comply with the instructions and guidance to senior management regarding the reporting and documentation;

• there is the required effectiveness and efficiency of the financial accounting process, incl. consolidation and documentary justification;

• there is a high degree of security protection and maintenance of the company's assets, incl. and prevention of fraud and error; and

• there is provision of reliable, quality and timely financial and operational information for internal and external users.

The main components of the internal control system on financial reporting and accountability include:

a) acceptance and observance of ethical principles and rules of conduct, adopted in a Code of Ethics for the employees of Sopharma AD, and in terms of financial reporting and accounting and all related processes, procedures and actions of all personnel of the Company;

b) developing and defining the optimal structure of the units involved in the processes related to financial reporting, with clearly defined responsibilities and delegation powers and duties, incl. by developing written internal documents;

c) developing policies for recruitment, training and development of personnel in the processes of accounting and financial reporting;

d) developing, implementing and maintaining control procedures and rules for each stage of the process relating to accounting, financial reporting and accountability priority gradual introduction of formalized written procedures;

e) developing procedures for identifying, monitoring and managing risks relating to accounting, financial reporting and accountability, incl. development of adequate measures and actions for their minimization; and

f) developing and maintaining adequate organization of information system incl. access controls, input, processing and retrieval of data, system changes, allocation of responsibilities of employees in her party, as well as storage and preservation of the integrity and authenticity of data in the system.

Control environment

Ethical principles and rules related to the processes of accounting, financial reporting and accountability

The Management of different levels of Sopharma AD has implemented and continuously monitors compliance with ethical values such as integrity, independence and objectivity as foundations of professional conduct of all persons involved in the processes related to accounting and financial reporting in the Company. It is the framework against which the control environment was built, and which have influenced the effectiveness of the design model, administration and ongoing monitoring of other components of internal control in the field of accounting and financial reporting. Integrity and ethical behavior are the product of established common ethical and behavioral standards of the Company. They are clearly communicated to the entire financial accounting and control staff and they constantly affirm in practice.

Ethical principles governing the professional conduct that should be observed by all persons involved directly or indirectly in accounting and business processes and related financial reporting are: objectivity; impartiality; independence; conservatism; transparency; methodological soundness; sequence and the use of independent experts. These principles apply to all stages of financial reporting in: accounting policy choice; closing of accounts; design and implementation of accounting estimates and develop public and government financial statements of other public reports and documents containing financial information.

Management bodies responsible for different components of the overall process of accounting and financial reporting

Management bodies which carry certain responsibilities and powers regarding the financial reporting process and respectively other related process are: Board of Directors, Audit Committee, Chief Financial Officer, Chief Accountant, Head of "Reporting" and Head of "Internal Audit". Their functions and responsibilities can be summarized as follows:

• The Board of Directors accepts and affirms accounting policies and changes thereto for each reporting period, developing accounting estimates at the date of each reporting period, incl. methodologies; financial statements and reports and other public documents containing financial information; functions, organization and responsibilities of all departments and their leaders involved in processes and associated financial reporting; development, deployment and ongoing monitoring functioning of the various components of the internal control system, incl. activities of the department "Internal Audit";

• The Audit Committee independently monitors the implementation of the financial reporting processes, accounting policies and the effectiveness of the internal control system of the company, incl. risk management, as well as the implementation and results of the external and internal audit;

• The CFO is responsible for the overall organization, operation and monitoring of accounting and financial reporting. He directly manages the entire process takes all key decisions related to the financial statements and other public documents with financial information. He also approves the first level accounting policy, the main accounting methods and evaluates and approves the reports of independent experts (appraisers, actuaries, consultants and others) involved in the financial reporting process. He currently monitores, along with the chief accountant and head of the department "Reporting" effects and risks on the financial statements of the identified business risks for the Company;

• The chief accountant organizes and manages the accounting and reporting of the Company - controls and methodological manages current accounting, manages the preparation of financial and management reports; is responsible for development and implementation of accounting and reporting methods and techniques; is responsible for the process of closing of accounts and preparation of all accounting estimates, offers and develops accounting policies and changes in them, monitors ongoing changes to IFRS. He is the direct contact with internal and external experts for financial reporting purposes;

• The department "Reporting" and its head carries overall organization, providing methodological and implementation process related to the preparation of the consolidated financial statements of the Company, incl. current control, instruction, monitoring and analysis of financial statements for purposes of consolidation of group companies Sopharma;

• "Internal audit" performs subsequent control over the operations and activities related to the preparation of the financial statements of the Company and compliance with the internal controls put in place by individual routine and non-routine processes.

Policies and practices related to human resources in financial and accounting departments

The Company has established policies and rules relating to the Management of human resources in the financial reporting process and other processes associated with it. These include enforced and implemented policies and procedures for the selection and appointment of such staff aimed at education and work experience, computer literacy and possession of languages of candidates when selecting leading requirements set out in the job descriptions of individual positions.

To the policies for personnel management are included those related to continuous further professional training, upgrading and expansion of knowledge and skills of employed specialists. In case of changes in the regulations, IFRS, tax and other laws affecting their work directly, the employees must attend different kind of trainings. The purpose of this policy is to achieve an increase in their expertise and improve their skills to increase efficiency in the performance of their duties.

Procedure of the Company to assess the risk associated with financial reporting

The Board of Directors, Audit Committee, Finance Director and Chief Accountant have a key role in permanently identify, monitor and control business risks, incl. to identify and control the effects of those that have a direct impact on individual processes and areas of accounting, financial reporting and accounting of the company. They, together, provide overall monitoring of the process of risk management.

Risk factors related to reliable financial reporting include external and internal events, transactions or circumstances that may arise and reflect negatively on the entity's ability to create, maintain and process accounting and operational data in a way that ensures reliable financial reporting, records and reports. The company has defined as essential following factors:

a) as external risks are determined: change in the business environment and market environment of the company and its major products; the activities of competitors; changes in legal and regulatory framework; changes in key suppliers or customers; fraudulent or malicious actions by outsiders; rapid corporate growth and growth of the group; development of the companies in which it holds significant investments in the form of shares and / or loans.

b) to internal risks are assigned: change the technological base of the company, the manner and intensity of use of its assets and resources; new products and activities; new accounting policies and IFRS; changes in the staff of the departments responsible for and / or financial reporting; changes in information systems; mistakes at work and / or insufficient knowledge or skills of staff rapidly expanding business abroad; administration of multiple estimates - especially use of fair values and calculating the recoverable amount of certain non-current assets, with the participation of outside experts.

Risk factors that are repetitive and / or are related to the application of accounting policies and estimates, are currently monitored by the chief accountant who offers solutions for the management and proper coverage of their effects in the financial statements. New risk factors are identified by the CFO, and are evaluated and developed together with the chief accountant and head of the department "Reporting." If necessary, technical assistance of independent consultants is used, incl. and implementation of new IFRS. The general supervision of the process of managing the risks associated with financial reporting is carried out by the Audit Committee of the Company.

Information system of the company. Department "Accounting" of the company - organization of the accounting function in the company and the financial reporting process

Information System

The information system of Sopharma AD includes infrastructure (physical and hardware components), software, people, procedures and data. In 2013 the Company has implementes ERP system Microsoft Dynamics AX. It covers all processes in sales, warehouse, mainly planning, production and accounting. The system was adapted and implemented not only taking into account the specifics of the company itself but also are borrowed best practices from the pharmaceutical sector and other manufacturing industries.

Besides the main information system, the Company uses the following systems: Hermes - a system of human resource management that covers the entire management cycle associated with the planning, evaluation, remuneration and human capital development in Sopharma AD. The relationship between them is that they enter data from Hermes into Microsoft Dynamics AX. The quality of information generated by the system Microsoft Dynamics AX and other products provide significant opportunities for management to take adequate, reasonable and timely decisions in managing and controlling activities on the preparation of various financial and management reports and other public documents with financial information.

The information system, relevant to the purpose and process of the financial reporting, includes, methods and documentation, which:

• identifies and records all valid transactions;

• timely describes the transactions in sufficient detail to allow their appropriate classification for financial reporting purposes;

• evaluates transactions in a way that allows to reflect their appropriate value in the financial statements;

• determines the time period in which transactions arise, to enable their recording in the appropriate accounting period;

• present transactions and related disclosures appropriately in the financial statements in accordance with the accounting framework.

The "Information Technology" Department is responsible for the risk-free functioning of the information system in the company.

"Accounting" Department - Implementation of the accounting policy and a key role in financial reporting

The accounting department of the company is directly subordinate to the Executive Director. It is headed by the Chief accountant. The following positions are subordinate to the Chief accountant: Deputy chief accountant and heads of sectors and operational accountants. Structurally, the Deparment consists of the following sectors: fixed assets, materials, expenses, implementation, foreign currency transactions, local currency transactions, salaries. According to their functional characteristics they cover and fully realize the accounting and reporting function in the company's internal accounting controls and the preparation of financial statements. The Department's responsibilities include the correct and consistent application of the developed accounting policies, the development and application of internal chart of accounts; reporting methodologies, current bookkeeping; current accounting analysis and control of accounting data and documentation; addition of and classification of accounting data for financial reporting purposes; preparation and / or processing of incoming data for approximate accounting estimates with the involved experts and reporting of identified deviations to the Financial Director; and compliance with regulatory requirements in the field of accounting, taxation and other related areas.

The accounting policies of the Company are subject to the approval of two levels annually - the Financial Director and the Board of Directors. The most important aspects necessary for a proper understanding of the financial statements must be disclosed.

Choosing the reporting framework is defined based on the requirements of the Accounting Act. The Company applies International Financial Reporting Standards (IFRS) as adopted by the European Union. The current control for the proper application of IFRS is performed by the chief accountant, finance director and audit committee. Further confirmation of the correctness of the application is received by the external auditors.

The preparation of financial statements of the company for public use is the result of a comprehensive process of closing an accounting period. This process is formalized through rules and instructions adopted by the management. They are linked to the performance of certain actions and procedures, respectively preparation of certain documents by persons from the "Accounting" Department or other officials and those actions and procedures are directed to: carrying out inventories; analysis of accounts; sending confirmation letters; determining the best estimates as amortization, revaluations and impairment charges, which are based on reasonable assumptions and classification of accounting data; research and analysis of certain legal documents (contracts, litigation, opinions of legal advisors); research and evaluation reports of experts (appraisers, actuaries, internal auditors, other domestic experts and officials); preparing reports and financial packages for consolidation; preparation, analysis and discussion of draft financial statements.

The process of closure of accounts is managed directly by the Chief Accountant, while the Financial Director monitors and takes the final decisions on key issues related to the recognition, classification, evaluation, presentation and disclosure concerning certain objects, operations and events as well as overall performance financial statements.

Control activities

Control activities in the developed and implemented internal control processes include: reviewing the implementation and results of operations; information processing; physical controls and segregation of duties and responsibilities.

General controls that relate to financial reporting can be categorized as procedures relating to current and periodic reviews and analysis of financial indicators and the input data used for their calculation represented in the financial to show the results of the company. They in turn include such reviews and analysis of actual reported data on performance against budget, forecasts, prior periods and industry. Such financial analysis are made with the platform QlikView – an addition to the ERP system Axapta 2009. They typically can also contain proposals for optimizations or revision of certain budgets.

The controls set in the information system of the company covering both the controls of application programs and general IT controls, which are policies and procedures that help ensure the continued proper operation of information systems. Typical controls over application programs that are set are: checking the mathematical accuracy of records, maintaining and reviewing accounts and trial balances, automated controls, such as checks on incoming data and checks of the sequence of numbers and non-automatic tracking reports exceptions. General IT controls include controls on change of programs, controls that restrict access to programs or data, controls over the implementation of new editions bundled software applications and controls over system software that restrict access or ongoing monitoring of the use of the system auxiliary functions that could change financial data or make records without leaving any trace for follow-up.

Applied physical controls include:

a) measures for the physical security of assets - safe equipment and facilities, and special conditions of access to assets and documents;

b) a specific procedure for approval of access to computer programs and data files;

c) periodic inventories - procedures for organizing and holding inventory through physical counting / weighing of stocks / sending appropriate written confirmation and comparing the amounts reflected in inventory control and accounting records / registers. Procedures are also introduced to ensure the timely analysis of the results of the inventories and developing solutions for their accounting and respectively approval by the Executive Director.

Internal controls are provided for the developed and implemented management procedures, organization and execution of the main routine processes (supply and sales) as well as the processes of preparation and adoption of complex estimates (amortization, impairment, revaluation actuarial calculations and long-term provisions). They include: authorization of individual transactions and issuance of primary documents; review and verification of documents issued and involved in the operation assets; subsequent restatement and comparisons with other documents (contracts, orders, confirmations, price lists, etc.) and persons, as well as segregation of duties and responsibilities of participating officials on each step of the process to ensure checks and balances between them and to reduce the possibilities that any person is in a position both to make and to conceal errors or fraud in the normal course of performing his/her duties.

The company is in constant expansion of formalized control procedures and activities.

Monitoring of controls

An important objective with high priority for the management and particularly the Financial Director is to establish and maintain continuous and effective internal controls. Monitoring of controls by management includes considering whether they are working as intended and whether they are modified appropriately to reflect changing conditions. Monitoring of controls may include activities such as management review whether internal management accounts are promptly prepared and that key data is reconciled through confirmation by third parties and its estimates, assessment by internal auditors for compliance with policies and procedures on the implementation of routine processes (sales and deliveries) by the respective employees, incl. defined internal controls including compliance with contracts provisions with partners, as well as supervision of compliance with ethical standards or business practices policies by the legal department of the company and the Department of Investor Relations. Ongoing monitoring is done to ensure that controls continue to operate effectively in time.

Internal auditors and other employees performing supervisory, monitoring and control functions, incl. the “Accounting” Department and the "Reporting" Department also contribute to the ongoing monitoring of internal control processes of the company though their evaluations of individual controls or groups of controls. Usually they periodically provide such information in the course of performing their duties and functions, and their judgments on the functioning of certain internal controls, focusing considerable attention on evaluating their performance, communicate the information with the respective persons identifying strengths and weaknesses of internal controls and make recommendations for their improvement.

Activities include monitoring the use of information from external parties that indicate problems or identifying areas in need of improvement. Such parties are customers, suppliers and servicing banks. In addition, the regulatory authority in the face of the FSC can also communicate with management on matters affecting the functioning of the internal control, for example, exchange of information directly monitored by the Commission related to the implementation of specific activities or transactions of the Company or revisions by the FSC itself. Also when implementing the activities on current monitoring management always takes into account the communication with external auditors related to internal control and the weaknesses discovered by them and the recommendations made.

IV. Information in accordance with Article 10, paragraph 1, letter "c", "d", "e", "h" and "i" of Directive 2004/25 /EC of the European Parliament and of the Council as of 21 April 2004 on proposals for takeover;

1. Significant direct or indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC;

There is no reaching, exceeding or falling below one of the thresholds of 10%, 20%, 1/3, 50% and 2/3 of the share capital of the Company during the year.

2. Holders of all securities with special control rights and description of these rights;

There are no securities with special rights issued. According to the Articles of Incorporation of Sopharma, all shares issued by the Company are of the same class, registered, common and indivisible. Each share entitles to one vote at the General Meeting of Shareholders, to dividends and liquidation part, in proportion to the nominal value of the share.

3. All restrictions on the voting rights, such as restrictions on the voting rights of holders of a given percentage or number of votes, deadlines for exercising the voting rights or systems through which through cooperation with the company the financial rights attached to the securities are separated from the holding of the securities;

There are no restrictions on the voting rights.

4. The rules which regulate the appointment and replacement of Board members and amendments to its Articles of Incorporation.

The Board of Directors proposes to the General Meeting amendments and / or supplements to the Articles of Incorporation, changes in the constitution of the Board of Directors release and election of new Board Members.

Members of the Board of Directors may be physical or legal persons meeting the requirements of Article 234 of the Commercial Code and Article 116a, paragraph 2 of the Public Offering of Securities.

When a member of the Board of Directors is a legal entity, it shall designate a representative / and / for the performance of duties in the Board. The legal entity is jointly and unlimitedly liable with the other members of the Council for the obligations arising from the actions of his representative.

Natural persons who are legal persons - members of the Board of Directors must meet the requirements of Art. 234, paragraph 2 of the CA.

They can not be members of the Board of Directors of persons who were members of management or supervisory body of a company terminated due to bankruptcy in the last two years preceding the date of the declaration of insolvency, if unsatisfied creditors.

You can not be a member of the Board a person who has been governor, member of the management or supervisory body of the company, which was established by an effective penalty decree defaulting on creation and preservation of its defined levels of stocks under the stocks of oil and oil products.

At least one third of members of the Board of Directors must be independent entities. The independent member of the Board can not be:

• employee of the public company;

• shareholder who owns directly or through related parties, at least 25 percent of the votes in the General Assembly or related company;

• a person who is in permanent trade relations with the public company;

• member of the management or supervisory body, procurator or employee of a company or other entity.

• a person connected with another member of management or supervisory body of a public company.

Members of the Board of Directors can be reelected without limitation.

With changes in legislation, the next General Meeting of Shareholders shall decide on amending the Constitution in order to align its provisions with those of existing regulations. By making this decision, the affected versions of the Charter shall be interpreted in accordance with the Constitution and laws of the country.

The Articles of Association shall be amended by the General Meeting of Shareholders with a majority of 2/3 / two thirds / of the represented at the General Meeting capital. The current Constitution was entered in the Commercial Register under number № 20,150,226,134,200.

5. The powers of board members, and in particular the right to issue or buy back shares.

The powers of the Board of Directors are regulated in the Articles of Incorporation. A decision to issue bonds can be taken by the Board of Directors with a qualified majority of two thirds of its members.

The Board of Directors is authorized to buy back shares under certain conditions, according to the decisions of the General Meeting held on 23.06.2010, EGM of 30.11.2011 on the EGM of 01.11.2012 and EGM of 28.02.2013.

V. Composition and functioning of the administrative, management and supervisory bodies and their committees

1. Composition of the Board of Directors:

The company is managed and represented by a Board of Directors, which consists of five physical persons meeting the requirements of Article 234 of the Commercial Code and Article 116a, paragraph 2 of the Public Offering of Securities. The composition of the Board of Directors can be changed by the General Meeting at any time.

The composition of the Board of Directors is described in section I. Overview of Sopharma in the Management report.

According to Article 116 Paragraph 2 of the Law on Public Offering of Securities at least one third of the members of the Board of Directors must be independent. In this case, these are:

• Andrei Lyudmilov Breshkov

• Alexander Viktorov Tchaoushev

Members of the Board of Directors are aware of their rights and duties associated with the position they take.

2. Rules of the Board of Directors

Sopharma AD has developed Rules of the Board of Directors that match and are an addition to the principles enshrined in the Good Corporate Governance Program. The Articles of Incorporation are prepared in accordance with the requirements of POSA and include provisions on the right of shareholders to timely notification on various issues.

The Board of Directors shall hold regular meetings at least once a month.

3. Minutes of meetings

All members present at a Board meeting signs minutes of meeting with the Protocol.

Minutes of meetings are kept by the Investor Relations Director of the Company;

The minutes of meetings are trade secret. Facts and circumstances that are included therein can be published, disclosed or brought to the attention of third parties only by a decision of the Board of Directors or when it is required by law.

4. Responsibility

Members of the Board of Directors must give a guarantee for their management in an amount determined by the General Meeting, but not less than three times their monthly gross salary.

Members of the Board of Directors are jointly liable for the damages caused to the Company.

Each member of the Board of Directors may be released from liability if it is established that they have no fault for a damage. The General Meeting can discharge the Board of Directors on the Annual General Meeting in the presence of audited annual financial statements for the previous year and interim financial statements for the period from the beginning of the current year to the date of the general meeting.

The Board of Directors reports for its activities to the General Meeting of Shareholders.

5. Role of the Board of Directors to implement the principles of good corporate governance

The Board of Directors decides on all matters relating to the Company, except those under current law and the Statute of the Company are of the exclusive competence of the General Assembly.

Assigns its decisions and functions under the operational management of the Company to one of its members /CEO/. The Executive Director may be changed at any time.

Members of the Board of Directors shall submit a declaration to the Financial Supervision Commission / FSC / to BSE - Sofia and the company itself in case of their participation as members of management and supervisory bodies of other companies, as well as information on legal entities, who they hold directly or indirectly more than 25% of the capital or which they control, as well as a present or future transactions which consider that they can be recognized as stakeholders. This circumstance is declared and updated within seven days of its occurrence.

In carrying out its activities the Board of Directors comply with the accepted principles of Corporate governance of the Company;

The Board of Directors shall make best efforts to ensure easy and timely access to public information for an informed exercise of shareholders' rights, respectively making an informed investment decision of investors.

6. Due diligence. Avoiding conflict of interest

Members of the Board of Directors are required to:

• carry out their duties with due diligence, to be loyal to the Company and act in the best interest of its shareholders;

• perform their duties with the inherent professional skill, diligence and responsibility in a way that they reasonably believe is in the interest of all shareholders of the Company, by using only information that they reasonably believe to be reliable, complete and timely;

• to the interest of the Company and the investors in the Company before their own interest and not used for the benefit of themselves or others at the expense of the Company and shareholders facts and circumstances that are learned in the course of their professional duties;

• avoid direct or indirect conflicts between their interests and the interests of the Company, and if such conflicts arise - to disclose promptly and fully and do not participate and do not affect the other members of the council in making decisions in such cases;

• not to disclose information about the deliberations and decisions of the meetings of the Board of Directors, as well as other non-public information about the Company, even after they cease to be members of the Board of Directors until the public disclosure of the circumstances of the Company;

• provide and disclose information to shareholders and investors in accordance with regulations and internal acts of the Company.

The Board of Directors assisted by an Audit Committee, which under the Independent Financial Audit and International Standards on Auditing, performs the following functions:

• monitors the financial reporting processes in the Company;

• monitors the effectiveness of the internal control;

• monitors the effectiveness of risk management in the Company;

• monitors the independent financial audit in the enterprise;

• reviews the independence of the auditor of the Company in accordance with the law and the Code of Ethics for Professional Accountants, including monitoring the provision of ancillary services by the auditor to the audited entity.

At an extraordinary General Meeting of Shareholders of Sopharma AD held on 20.11.2008 was elected an Audit Committee composed of three people: Tsvetanka Zlateva Vasil Piralkov and Vasil Naydenov , elected for a 3-year mandate, which has been re-elected two consecutive times.

VI. Description of the diversity policy, applied to administrative, management and supervisory bodies of the issuer in relation to aspects such as age, sex or education and professional experience, the objectives of this policy of diversity, the manner of its implementation and results during the reporting period.

Sopharma AD is making every effort to ensure equal opportunities in recruitment and compliance in form and substance of the whole range of laws pertaining to fair employment practices and prevent discrimination.

Discrimination, whether based on race, sex, or expression of gender, color, creed, religion, national origin, nationality, citizenship, age, disability, genetic information, marital status (including domestic partnerships and civil unions as defined and recognized by applicable law), sexual orientation, culture, ancestry, veteran's status, socioeconomic status or other legally protected personal characteristic, are unacceptable and completely not consistent with the traditions of the Company, for providing a respectful, professional and dignified workplace. Retaliation against individuals for raising claims of discrimination or harassment is also prohibited.

The main objectives that the Company set itself in the implementation of diversity policies are:

• Attracting, hiring and holding on of people with a wide range of professional skills. The diverse capabilities of management and staff open new opportunities for innovative and creative solutions increase creativity and innovation. This in turn would lead to more efficient adaptation to the impact of globalization and technological change. A diverse workforce can increase company effectiveness to achieve its objectives. It can lift morale, giving access to new market segments and increase productivity.

• Fostering a working environment that accepts ethno-cultural diversity and in which individual differences are valued and respected

• Solve one of the most important issues for the employer - that of labor shortages and problems relating to the recruitment and retention of highly skilled workers.

• Improving the reputation and overall performance of the company to external stakeholders and society

• Creating opportunities for disadvantaged groups and building the unity of society.

Sopharma AD strives to achieve targets as approved and put into practice important for company types manifolds. By adopting best practices from other companies and institutions, the company's management wants to make diversity management a functioning part of the company. Sopharma endeavor employees, consumers, customers and investors to be informed about the importance of diversity to them and their work, aiming to build their confidence and willingness to support.

Diversity policy provides a variety of board members, ensuring reliable system management and control, and good corporate governance is an essential element of safe and stable operation of Sopharma AD. They meet the highest standards applied by the Company in order to realize its objectives and strategies.

The composition of the Board of Directors and the number of people involved in it, is consistent with the size, complexity and scope of the Company's operations and ensure sufficient level of general expertise.

Members of the Board of Directors of Sopharma AD have extensive experience as a theoretical gained through education, training and qualifications and practical acquired during previous positions occupied. They are persons of good repute and managerial capabilities, with high professional and moral qualities.

Members of the Board of Directors of the Company has economists, financiers and individuals with higher education in the field of international relations and other areas of business.

Compliance with the principle of gender equality, as witnessed by the many women occupying senior positions in the Company, Mrs. Vessela Stoeva- member of the Board of Directors and Ms. Tsvetanka Zlateva- member of the Audit Committee, are only examples of such .

Diversity policy with respect to the management authorities do not allow a limitation of age composition.

In the company there are representatives from various minority ethnic groups-ethnicities. The company employs people from disadvantaged backgrounds. The aim is to provide young people with opportunities for professional and personal development.

Male to female ratio is 38% to 62% in favor of women and required by the nature of the production process.

The policy of diversity in terms of personnel (directors of departments, heads of departments, employees) does not allow restriction of age composition.

As the Company has no discrimination on any grounds.

Section V of the Rules of Internal labor order of Sopharma AD regulates the rights and protection of employees when it comes to any discriminatory action by the employer.

On the basis of Ordinance on labor readjustment / SG, issue 7/1987, issue 7/1987, amended. and supplemented. Issue 111 of 28.12.2001, amend. Issue 78 of 30.09.2005 which entered into force on 01.10.2005 /, Ordinance № 8 for determination of jobs suitable for labor readjustment of disabled performance / SG issue 52 / 1987. SG issue 47 / 1990 / Ordinance amending and supplementing Ordinance № 8 for determination of jobs suitable for labor readjustment of persons with disabilities / SG. 44/1993. / and according to Art. 27 of the integration of people with disabilities, each year a special Committee on labor readjustment meets in Sopharma AD. It develops a list of suitable locations and positions for labor readjustment of disabled workers with permanent disabilities in accordance with the percentage allocated to the sector in accordance with Art. 315 of the Labor Code and of pregnant workers and workers who are breastfeeding. Commission shall examine specific cases for labor readjustment and indicates appropriate places according to the approved list.

Ognian Donev, PhD
Executive Director